SUMMARY OF FUNDING POLICY

The following is a brief summary of the main provisions of the Funding Policy for the New Brunswick Teachers' Pension Plan ("NBTPP"), effective September 21, 2017. This summary is provided for information only. In the event of a conflict between this summary and the Funding Policy, the Funding Policy prevails. The full text of the Funding Policy is available at vestcor.org/nbtpp.

PURPOSE OF PLAN AND FUNDING POLICY

The purpose of the NBTPP is to provide a revised framework for the management and delivery of pensions to teachers in New Brunswick. The NBTPP is subject to a risk management framework as described in the 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 NBTPP 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 NBTPP.

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

FUNDING GOAL

The funding goal 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.

RISK MANAGEMENT

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.

CONTRIBUTIONS

The contribution rates for the 15-year period starting with the Conversion Date (July 1, 2014) are shown below:

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	Contributions shall be reset as set out in the Funding Policy.			Contributions shall be reset as set out in the Funding Policy.		

In year 16, the contribution rate for both the Teacher and the Employer will be half of the new total contribution amount, equal to 9.25% up to the Year's Maximum Pensionable Earnings ("YMPE") and 10.95% on earnings above the YMPE (as determined at that time), plus 9.75%.

The above mentioned initial contribution rates may be adjusted by the Board of Trustees. A total contribution increase of up to 3% of earnings (1.5% each for Teacher and Employer contributions) is to be triggered by the Board of Trustees if the closed group funded ratio of the NBTPP, as defined by the *Teachers' Pension Plan Act* (the "*TPPA*"), falls below 100%. This must only be performed if 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 fifteen years. This calculation is based on a three year moving average of the results.

A reduction in contributions of up to 1.5% of earnings for Teachers and Employers in equal amounts will be triggered by the Board of Trustees if the valuation reveals a funding level above 115%. The reduction will be removed no later than 12 months following a funding valuation that reveals a closed group funded ratio below 110%.

If, at any time, the Province announces an increase or a decrease in teachers employed by the Employer of more than 5% in period of 5 years or less, the initial contribution rates will be re-calculated.

FUNDING DEFICIT RECOVERY PLAN

The Funding Deficit Recovery Plan must be implemented by the Board of Trustees if the closed group funded ratio 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.

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 toward the Contingency Reserve used to offset deficits;
2. Increase contributions as allowed under Section III of the Funding Policy;
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;
6. Reduce Base Benefits for past service for Teachers provided such reduction is deemed appropriate, taking into account the principles of sustainability, affordability, benefit security, transparency and inter-generational equity;
7. Reduce accrued Base Benefits for retirees and Claimants to the extent necessary to bring the NBTPP 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 to be achieved in no more than 15 years following the valuation date.

Changes set out under steps 1 through 5 will take effect no later than 12 months following the date of the funding policy valuation report that triggered the need for the changes. Base benefit reductions described in steps 6 and 7 will take effect no later than 18 months following the date of the funding policy valuation report that triggered the need for the action.

Additionally, priorities for Funding Correction Reversals are an integral part of the Funding Deficit Recovery Plan. Any reversal only affects future contributions and future payments for retirees and Claimants and future service only for Teachers. Funding Correction Reversals have priority over the establishment of a Contingency Reserve, the reduction of contributions, and Benefit Improvements.

FUNDING EXCESS UTILIZATION PLAN

The Funding Excess Utilization Plan describes the actions the Board of Trustees must take or consider when the closed group funding levels exceed 100%.

The first priority in the event of excess funding is Funding Correction Reversals discussed above.

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 NBTPP. The Contingency Reserve is kept within the Fund. When the contingency reserve is at its maximum level, the Board of Trustees will take additional actions as set out in the order 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 of the Funding Policy;
3. If the closed group funding ratio exceeds 120% (including the 10% allocation to the Contingency Reserve), implement a Funding Correction Recapture;
4. The Board of Trustees may propose benefit changes for implementation provided such proposed benefit changes meet certain criteria, as certified by the NBTPP actuary and, if necessary, the investment or risk manager.

The timing of the above actions, subject to any additional time required in the event of an objection to the change in benefits, will be the first of the year that is 12 months after the date of the funding policy valuation report that triggered the actions.

ACTUARIAL ASSUMPTIONS

The NBTPP'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 NBTPP falls below 90%, in which case annual funding valuations are required. Going concern valuations for *Income Tax Act* (Federal) 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 *Pension Benefits Act*, to estimate the closed group funded ratio.

The discount rate as of the August 31, 2016 valuation is 5.85%. The intent is to leave the discount rate stable, but it may be changed as required or warranted, as detailed in the Funding Policy. Other assumptions may be changed by the Board of Trustees as required or as experience evolves.