

# NEW BRUNSWICK TEACHERS' PENSION PLAN

## PENSION NEWS



WINTER 2015 - Volume 1, Issue 1

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### MAJOR HIGHLIGHTS

- Board of Trustees members announced on August 15, 2014
- New Brunswick Teachers' Pension Plan (NBTPP) is on a solid footing - Termination Value Funded Ratio 100.2% as of January 1, 2014 (*see page 2 - Funding Status of the Pension Plan*)
- Investment return in 2014 of 12.54%
- Assets at December 31, 2014 of \$5.06 billion

### IN THIS ISSUE

- 1 Welcome Message from the Chairperson
- 1 Plan Governance
- 2 Actuarial Valuation
- 2 2015 Indexing Adjustment Benefit
- 3 Important Employee Information
- 3 Pension Plan Text - Amendments
- 3 Did You Know?
- 4 Investment Report - New Brunswick Investment Management Corporation (NBIMC)
- 5 Contact Information

# WELCOME MESSAGE FROM THE CHAIRPERSON



On behalf of the New Brunswick Teachers' Pension Plan Board of Trustees, I am pleased to present the inaugural newsletter of your pension plan. Your Board of Trustees has been working diligently to transition the prior Teachers' Pension Plan to the New Brunswick Teachers' Pension Plan (NBTPP) as the following report outlines. We are pleased to advise that the NBTPP is in a solid financial position.

We intend to keep you well informed with semi-annual newsletters. This Winter newsletter will typically provide an update on the results of the year-end investment management performance report and, at least every three years, will include the results of the actuarial valuation report. A Fall newsletter will provide information with respect to the applicable cost-of-living increase for the year ahead.

Please note, we are always interested in your feedback and questions.

Sincerely,

Larry Jamieson, NBTPP Chairperson

## PLAN GOVERNANCE

### Purpose of the Pension Plan

The sole purpose of the New Brunswick Teachers' Pension Plan (NBTPP) is to provide retirement benefits to members, retirees and their survivors in accordance with the NBTPP Text, Funding Policy, the *Pension Benefits Act* (NB) and the *Teachers' Pension Plan Act* (NB).

### Board of Trustees

A Board of Trustees (the "Board") has been appointed to administer the NBTPP. Four Trustees have been appointed by the New Brunswick Teachers' Federation and four Trustees have been appointed by the provincial government. In addition, the Federation has appointed two observers to the Board.

#### The Trustees include:

- Larry Jamieson, Chairperson – Executive Director of the New Brunswick Teachers' Association
- David Nowlan, Vice-Chairperson – Director of Audit and Consulting Services, Office of the Comptroller of the Province of New Brunswick
- Jane Garbutt
- Marcel Larocque – Deputy Executive Director of l'Association des enseignantes et enseignants francophones du Nouveau-Brunswick
- Leonard Lee-White – Assistant Deputy Minister of Finance, Treasury Division
- Jennifer Morrison – Director of Trust Fund Administration, Department of Finance
- Mike Springer – Retiree and former Director of Teacher Welfare Services with the New Brunswick Teachers' Association
- Reno Thériault – Retiree and former Executive Director of l'Association des enseignantes et enseignants francophones du Nouveau-Brunswick

#### The Observers include:

- Bob Fitzpatrick – Retiree and former Executive Director of the New Brunswick Teachers' Association
- Caroline Foisy – Labour Relations Officer with the New Brunswick Teachers' Federation

Trustees must act independently of the organization that appointed them and always in the best interest of all members, retirees and their survivors. Trustees cannot be removed, before their term expires, by the group that appointed them, but they can be removed by the New Brunswick Superintendent of Pensions for failure to perform their duties as outlined in the *Pension Benefits Act* and the *Teachers' Pension Plan Act*.

### Duties of the Board of Trustees

The Board is responsible for the overall administration of the NBTPP including oversight of the investments. The NBTPP Text, Declaration of Trust, Investment Policy and the Funding Policy are all important documents in guiding the Board in carrying out its duties.

The Board has entered into service level agreements with the New Brunswick Investment Management Corporation to provide investment management services and with the Pensions and Employee Benefits Division to provide pension administration services.

The Board is required to meet at least four times each year. However, as the Board is in its first year of operation, it has been meeting more frequently since August. The Board has been focusing its efforts on establishing governance policies, establishing sub-committees (e.g., Governance, Audit) along with receiving ongoing updates from the Investment Manager and Pension Benefits Administrator.

# ACTUARIAL VALUATION

## Initial Actuarial Valuation

The Initial Actuarial Valuation Report for the NBTPP was completed as of January 1, 2014 and filed with the Superintendent of Pensions on October 31, 2014.

The NBTPP is subject to new requirements under the *Pension Benefits Act (PBA)* and the *Teachers' Pension Plan Act (TPPA)* when completing an actuarial valuation, which includes the requirement for risk management testing and for reporting on the risk management goal.

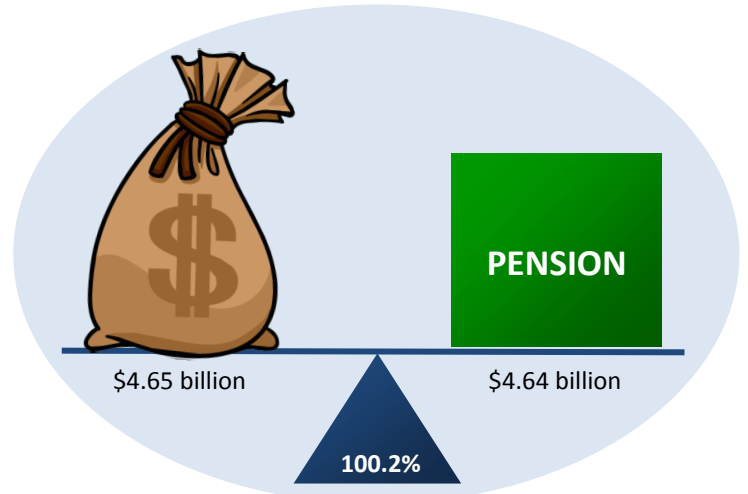
## Risk Management Testing

The NBTPP is required to undergo a risk management test to ensure its security and ability to provide long-term benefits to its members. The result of this test may cause the need for shorter-term adjustments, as outlined in the *TPPA* and the NBTPP Funding Policy to help preserve the long-term financial health of the pension plan.

We are pleased to report that the pension plan's actuary has confirmed that the NBTPP has successfully passed this test as part of the actuarial report as of January 1, 2014. The NBTPP passed the risk management goal with a 98.3% probability that benefits earned would not be reduced over the next 20 years.

## Funding Status of the Pension Plan

The *TPPA* requires that the funding status of the NBTPP be measured on the basis of the termination value funded ratio as part of the valuation. This ratio compares the fair market value of the pension plan's assets to the pension plan's liabilities as of January 1, 2014 and is used in the calculation of a member's benefits on termination of employment, death, marriage breakdown or retirement.



As at January 1, 2014, the NBTPP had \$4.65 billion in assets and \$4.64 billion in liabilities for a termination value funded ratio of 100.2%.

# 2015 INDEXING ADJUSTMENT BENEFIT

The NBTPP provides for an indexing adjustment benefit (IAB, also known as "indexation") each year as long as there is a large enough surplus in the pension plan, up to a maximum CPI of 4.75%, as follows:

For **active teachers**, benefits accumulated will be adjusted on the basis of **100% of the increase in the Consumer Price Index (CPI)**

100%  
of CPI

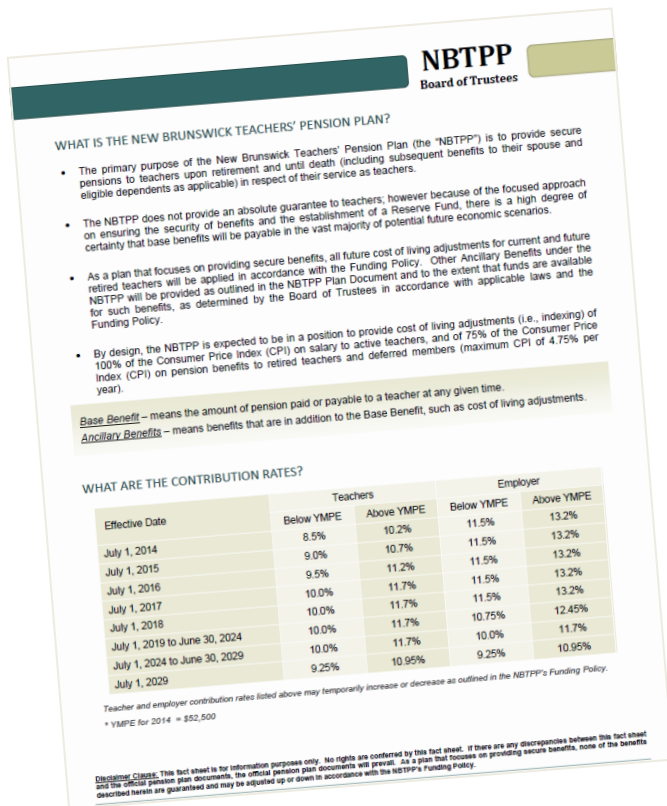
For **deferred members and retired teachers (including survivors)**, pensions will be adjusted on the basis of **75% of the increase in the Consumer Price Index (CPI)**

75%  
of CPI

For January 2015 the maximum IAB that can be provided is 1.43% and is based on the increase in the average Consumer Price Index (CPI) for Canada for the 12 month period ending June 30, 2014.

As a result of the actuarial valuation report as of January 1, 2014, it was determined that the funding status of the NBTPP allows for the maximum IAB to be provided. For active teachers and deferred members, the increase was applied to the benefits that they have earned up to June 30, 2014 and is prorated to take into account that the pension plan converted on July 1, 2014. For retired teachers, the increase was applied to their monthly benefits effective January 1, 2015.

# IMPORTANT EMPLOYEE INFORMATION



## NBTPP At-a-Glance & Governing Documents

The NBTPP At-a-Glance document provides a summary of the rights and obligations under the NBTPP. For more detailed information about your pension plan, you may consult the NBTPP Governing Documents.

The NBTPP At-a-Glance and Governing Documents as well as other information about your pension plan can be found at: [www.gnb.ca/nbtp](http://www.gnb.ca/nbtp).

Please note that the NBTPP Employee Booklet is currently being revised and will be available in the near future.

## Pension Estimate Calculator Tool

The Pension Estimate Calculator tool has been updated to account for the provisions applicable under the NBTPP and can be found at: [www.gnb.ca/nbtp](http://www.gnb.ca/nbtp).

Please note that an enhanced version of the calculator tool is currently being developed which will work in conjunction with the upcoming NBTPP Employee Statement of Pension Benefits (detailed in next section).

## Employee Statement of Pension Benefits

An enhanced version of the NBTPP Employee Statement of Pension Benefits for the period of September 1, 2013 to August 31, 2014 is currently being developed. The statements will include a new section which will allow members the ability to enter data directly from the statements into an enhanced, user-friendly version of the Pension Estimate Calculator tool previously referenced.

The statements are targeted for distribution around mid March.

## PENSION PLAN TEXT – AMENDMENTS

The *Pension Benefits Act (PBA)* requires that plan members be provided with an update on any plan amendments. As such, the Board of Trustees would like to inform you of the amendments which were filed with the Superintendent of Pensions.

On January 23, 2015, the Board of Trustees filed amendments pertaining to:

- The removal of the proration of the Year's Maximum Pensionable Earnings (YMPE) average for the pre-conversion base benefit calculation; and
- The option, for pre-conversion deferred vested members, to elect, in lieu of a deferred pension, a refund of their contributions to the pension plan, plus interest.

A revised version of the NBTPP text is available at [www.gnb.ca/nbtp](http://www.gnb.ca/nbtp).

## DID YOU KNOW?

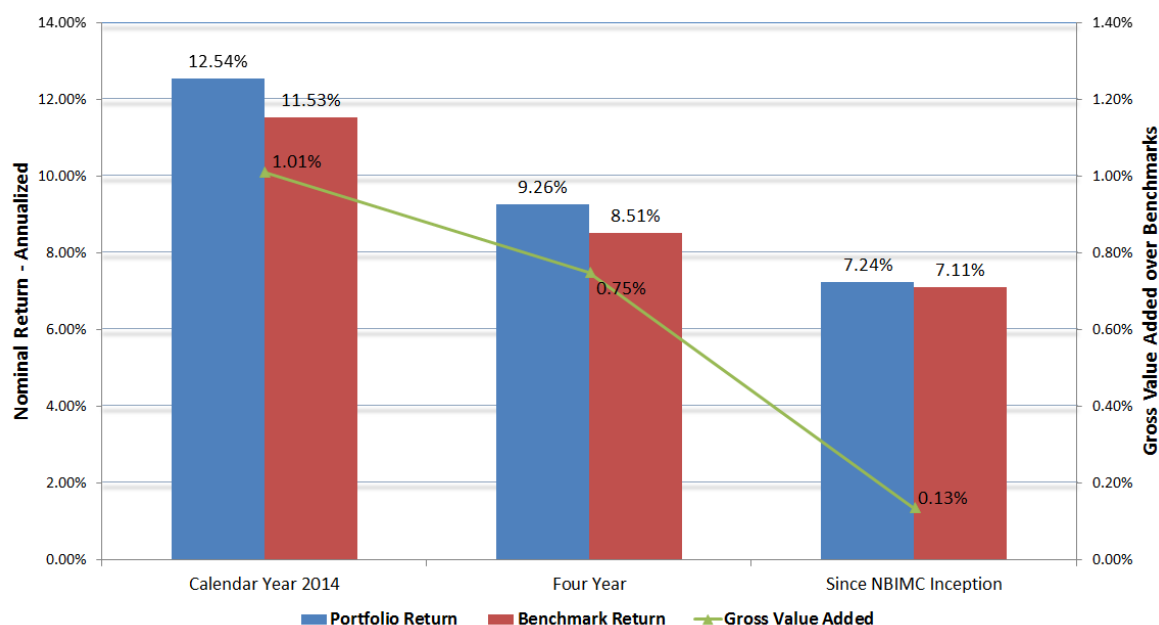
If you are a retiree, you can receive future communiqués from the Board of Trustees via email. Simply call the Pensions and Employee Benefits Division toll free at 1 (800) 561-4012 or 453-2296 (Fredericton) and provide them with your email address.

# INVESTMENT REPORT – NEW BRUNSWICK INVESTMENT MANAGEMENT CORPORATION (NBIMC)

With the pension plan conversion on July 1, 2014, the trustee responsibilities for the pension fund have been transferred from the NBIMC Board of Directors to the new NBTPP Board of Trustees. One of the Trustees' first decisions was to enter into a renewable investment management agreement with NBIMC for a minimum term of five years. In addition to providing investment management services to the NBTPP, NBIMC expects to assist the Trustees with their responsibilities through our investment policy research and risk management advisory capabilities.

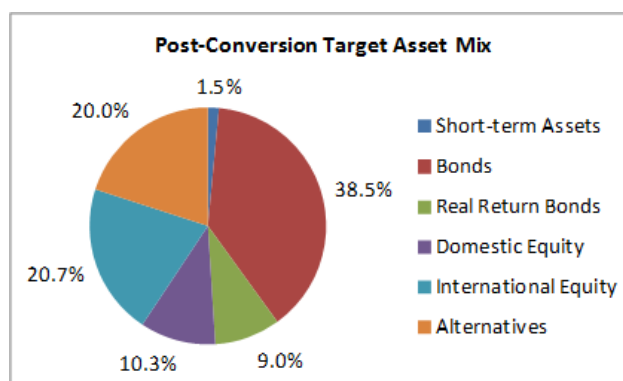
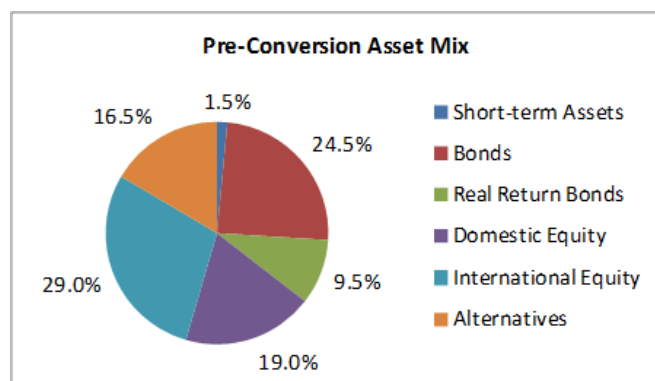
We are very pleased to report that the investment return for the NBTPP Fund for the year ended December 31, 2014 was 12.54% compared to its total fund benchmark of 11.53%. Each of our investment portfolios produced positive returns during the year as most global economies continued their slow expansion out of the 2008-2009 financial markets crisis. Longer dated fixed income producing assets and North American equities realized solid double digit returns, while shorter dated fixed income and international equity portfolios produced mid to low single digit returns.

The active investment management activities of the NBIMC Investment Team produced 1.01% of gross investment value over Investment Policy benchmarks during the calendar year.



The fair value of NBTPP Fund assets at December 31, 2014 was \$5.06 billion, up \$402.3 million from the December 31, 2013 fair value.

The NBTPP conversion process included the development of an initial asset mix that was determined to meet the risk management goals set out in the NBTPP Funding Policy. This asset mix was developed by the parties to the NBTPP agreements through the pension reform process and it is shown in the chart below, compared to the pre-conversion asset mix of the prior *Teacher's Pension Act*.



Before commencing the transition of the assets to the proposed target asset mix, the NBTPP Board of Trustees has requested NBIMC to conduct a further asset liability study as part of the Trustees' review of the overall Investment Policy.

The new target asset mix will be highly dependent on the liability profile of the pension plan and will be designed to meet the specific lower long-term return and lower risk requirements of the NBTPP.

Please note that the most recent *Teacher's Pension Act* investment return released by NBIMC was reported on a fiscal year basis ending March 31, 2014 whereas NBTPP returns will be reported on a calendar year basis.

# INVESTMENT REPORT – NBIMC (CONTINUED)

We expect to share the results of this analysis with the NBTPP Board of Trustees in early 2015, whereupon the NBTPP Board will make a final asset mix decision.

The ultimate transition to the new asset mix is expected to take up to one year to complete and we look forward to providing an update on this transition in the next newsletter.

## Investment Outlook

The slow and steady improvement we had been witnessing in the global economy in early 2014 started to show signs of a significant divergence by mid-year as second quarter Gross Domestic Product (GDP) and production reports in North America and the United Kingdom were much better than the declining growth rates that were reported in Europe and many emerging market countries. While still growing at high single digit levels, China has recently posted its slowest growth rate in the past 5 years as it continues to struggle to transition from an export based economy to a more domestic focused economy.

While global economic growth generally remained positive, and not thought to be at risk of recession for most of the year, recent reports have caused investors to pause and reassess the premium pricing levels that most financial assets had reached in the early half of 2014. The significant drop in commodity prices that we witnessed later in the year has also caused uncertainty around whether the decline had been primarily due to the impact of an increase in supply, or whether it is due to a more concerning drop in demand due to declining economic growth.

These economic differences have also created an important disparity in the market expectations of the future policy actions of the various global central banks. It is generally perceived that both the US and UK will begin to very slowly increase interest rates in 2015, while the market believes that the European Central Bank and Bank of Japan will need to undertake even more aggressive monetary stimulus measures. The expectations of the Bank of Canada remain mixed between having to deal with improving export growth to the US being offset by the impacts of the sharp decline in energy prices into year end.

One would normally expect that the anticipated increase in interest rates in the US and UK would have resulted in higher bond yields, however just the opposite was experienced during the later part of the year. Continued global investor needs for yield and the expectation of future additional European and Japanese stimulus measures in the year ahead, caused fixed income markets and real asset prices to strengthen into calendar year end, with longer dated assets generally posting double digit returns in 2014. Current U.S. ten year government yields near 2% in combination with a strengthening US dollar look very attractive to a European investor versus a current German government ten year yield of approximately 0.5%.

The global growth concerns and an unstable geopolitical situation has increased both fixed income and equity market volatility from the very low levels witnessed over the past few years. We expect this to continue until the market receives more certainty about future global economic growth rates, the related impact of the significant recent commodity price declines, and the resultant upcoming global central bank policy decisions.

While we continue to believe that equity securities still provide better long-term value versus most other alternatives, our overall focus will be more cautious in the near term until we receive more clarity on the items noted above.



## CONTACT INFORMATION

**NBTPP Board of Trustees**  
**c/o Pensions and Employee Benefits**  
**PO Box 6000**  
**Fredericton, NB E3B 5H1**

For questions, please contact Pensions and Employee Benefits Division toll free at 1 (800) 561-4012 or 453-2296 (Fredericton).

## REMINDER FOR RETIREES

Your pension is deposited on the 24<sup>th</sup> of each month, unless, the 24<sup>th</sup> falls on a weekend or holiday. Here are the deposit dates for 2015:

<b>January</b>	<b>23</b>	<b>July</b>	<b>24</b>
<b>February</b>	<b>24</b>	<b>August</b>	<b>24</b>
<b>March</b>	<b>24</b>	<b>September</b>	<b>24</b>
<b>April</b>	<b>24</b>	<b>October</b>	<b>23</b>
<b>May</b>	<b>22</b>	<b>November</b>	<b>24</b>
<b>June</b>	<b>24</b>	<b>December</b>	<b>18</b>



**DISCLAIMER:** This publication is intended to provide information about the New Brunswick Teachers' Pension Plan (NBTPP). If there is a discrepancy between the information contained herein and the NBTPP Text, the latter will prevail.