PSSRP Update

PUBLIC SERVICE SHARED RISK PLAN
This newsletter is a publication by the PSSRP Board of Trustees

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In this issue

Message from the Chairperson

On behalf of the Public Service Shared Risk Plan (PSSRP) Board of Trustees, I am pleased to present the second newsletter of your pension plan. Over the last six months, the Board has been busy establishing governance processes and policies to aid in our work. We have also conducted a thorough investment policy review with the assistance of the N.B. Investment Management Corporation. The Board is also taking action to have the remaining four Board vacancies filled as soon as possible to contribute to this important work.

In addition to the announcement of the cost of living adjustment that became effective on January 1, 2015, we present some answers to a number of questions that we have received. We hope these are helpful and we are always interested in your feedback.

Sincerely,

Marilyn D Quinn

Marilyn Quinn, PSSRP Chairperson

Major Highlights

- Cost of Living Adjustment is 1.43% for 2015.
- Investment returns remained strong for the first half of 2014:
  - Realized a six month nominal return of 8.03%, or $399.7 million, at June 30, 2014.
  - This return was $30.8 million more than the Investment Policy Benchmarks.
- Assets at June 30, 2014 were $6.36 billion.

Pension Plan Text – Amendments

The New Brunswick *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 during 2014.

On June 27, 2014, the Board of Trustees filed amendments pertaining to:

- Eligibility changes for employees hired under a Personal Services Contract (PSC). Employees hired under a PSC on or after February 1, 2014 are required to join the plan;
- New purchase of service provisions;
- Pre-retirement option which had been omitted from the plan; and
- Small administrative changes.

On October 10, 2014, the Board of Trustees filed amendments pertaining to:

- Vesting provisions which now include two years of pensionable service as a criteria to attain the vesting date; and
- As of September 23, 2014, Members of the Legislative Assembly are eligible to join the plan.

In addition, on December 19, 2014, the Board of Trustees filed amendments pertaining to:

- New employers have been included in the list of employers whose employees participate in the plan;
- Suspension of pension provisions which had been omitted from the plan; and
- The residual balance payable in accordance with Paragraph 12.1(iv) which will become payable to the member's beneficiary or estate, as applicable.

The complete version of the revised PSSRP text will soon be available at www.gnb.ca/pssrp.

Plan Features

Cost of Living Adjustment

The PSSRP provides for a cost of living adjustment ("COLA", also known as "Indexation") each year if there is a large enough surplus in the pension plan and the PSSRP passes its risk management tests. The maximum COLA that could be provided on January 1, 2015 was 1.43%, which was based on the increase in the average Consumer Price Index (Canada) for the 12 month period ending June 30, 2014.

Following a review of the results of the most recent actuarial valuation (as of January 1, 2014), the PSSRP Board of Trustees **approved the full cost of living increase of 1.43%,** which was effective January 1, 2015.

In accordance with the PSSRP Funding Policy, the 1.43% COLA applies to all plan members:

- For active and deferred plan members, the increase applies to the benefit that they have earned up to December 31, 2013; and
- For retirees, the increase has been applied to their monthly pension benefit effective January 1, 2015.

PSSRP Funding Policy

What is the PSSRP Funding Policy?

The PSSRP Funding Policy is an important governance tool that is used by the Board of Trustees in managing the ongoing risks associated with operating the pension plan.

The PSSRP Funding Policy outlines:

- the actions that the Board of Trustees must take if the plan is less than 100% funded (deficit) on an open group funded ratio basis for two consecutive years;
- the actions that the Board of Trustees must consider if the plan is more than 105% funded (surplus) on an open group funded ratio basis.

What is the "Open Group Funded Ratio"?

The open group funded ratio is calculated each year by the actuary in accordance with the requirements of the *Pension Benefits Act*. This important computation is used extensively in conjunction with the PSSRP Funding Policy to determine the actions to be taken by the PSSRP Board of Trustees.

What is the open group funding position of the PSSRP?

The PSSRP open group funded ratio at January 1, 2014 was calculated as follows:

[	**Assets at December 31, 2014**	+	**Present Value of 15 Years of Excess Contributions**	]	÷	**Liabilities**	=	**Open Group Funded Ratio**
	$5.96 billion		$1.26 billion			$5.94 billion		121.5%

What happens if the PSSRP has a deficit?

The PSSRP has to be in a deficit position (less than 100% funded) for two consecutive years before any action is required under the PSSRP Funding Policy. However, if this does occur the PSSRP Board of Trustees must take action to address the deficit. The actions that would be taken are outlined in the Funding Deficit Recovery Plan section of the PSSRP Funding Policy.

What happens if the PSSRP has a surplus?

The PSSRP is deemed to be in a surplus position when the open group funded ratio exceeds 105%. When this occurs, the PSSRP Board of Trustees is able to use 1/6th of the surplus that exists between 105% and 140% funded and 100% on any surplus that exists above 140% funded.

In using the surplus, the first step is to reverse any actions that have been taken under the Funding Deficit Recovery Plan. The second step is to provide an annual cost of living adjustment of up to the full increase in the Consumer Price Index. The Funding Excess Utilization Plan section of the PSSRP Funding Policy outlines these and other steps that the PSSRP Board of Trustees may take when surplus funds are available.

Where can I find the PSSRP Funding Policy?

The PSSRP Funding Policy can be found at the following internet address under Governing Documents: www.gnb.ca/pssrp.

Specific Terminology Used for the PSSRP

The *Termination Value* and *Adjusted Termination Value* are new concepts used under the shared risk plan model:

Termination Value:

This is an actuarial calculation that provides the lump sum value of a member's pension benefit at age 65 based on a number of plan assumptions. A member's age and salary at the date of calculation are important factors in the calculation. The amount cannot be less than the member's contributions to the plan plus interest. It should be noted that the amount is not a minimum of the employee and employer contributions plus interest.

The Termination Value is available to vested plan members who terminate employment prior to age 55 and wish to receive this amount rather than a deferred pension benefit. This calculation also takes place when there is a Marriage Breakdown calculation, a death benefit calculation or a "small pension" payout calculation.

Adjusted Termination Value:
This is an actuarial calculation that produces the maximum value for the associated service based on a number of plan assumptions. This is the true cost to the pension plan of providing the service. A member's age and salary at the date of calculation are important factors in the calculation. An Adjusted Termination Value is calculated when a member wishes to purchase pensionable service or transfer service under a reciprocal transfer agreement.

PSSRP Plan Membership

	Active Members	Retirees and survivors	Deferred Members	Total
Members at April 1, 2012	19,548	13,113	383	33,044
New members	966	-	-	966
Retirements	(805)	850	(45)	-
Deferred members who became active	12	-	(12)	-
Terminations	(371)	-	41	(330)
Deaths	(27)	(354)	(2)	(383)
Survivor Pensions that became payable	-	158	-	158
Others	-	3	-	3
Members at April 1, 2013	19,323	13,770	365	33,458

Contact

More information on your Pension Plan can be found at www.gnb.ca/pssrp.

Contact Information

PSSRP Board of Trustees
c/o Pensions and Employee Benefits
P.O. Box 6000, Fredericton, NB E3B 5H1

Did You Know?

If you are a retiree, you can receive future communiqués from the Board via email. Simply call the Pensions and Employee Benefits Division toll free at **1.800.561.4012** or **506.453.2296** (Fredericton) and provide them with your email address.

Investment Report from New Brunswick Investment Management Corporation (NBIMC)

Investment Performance

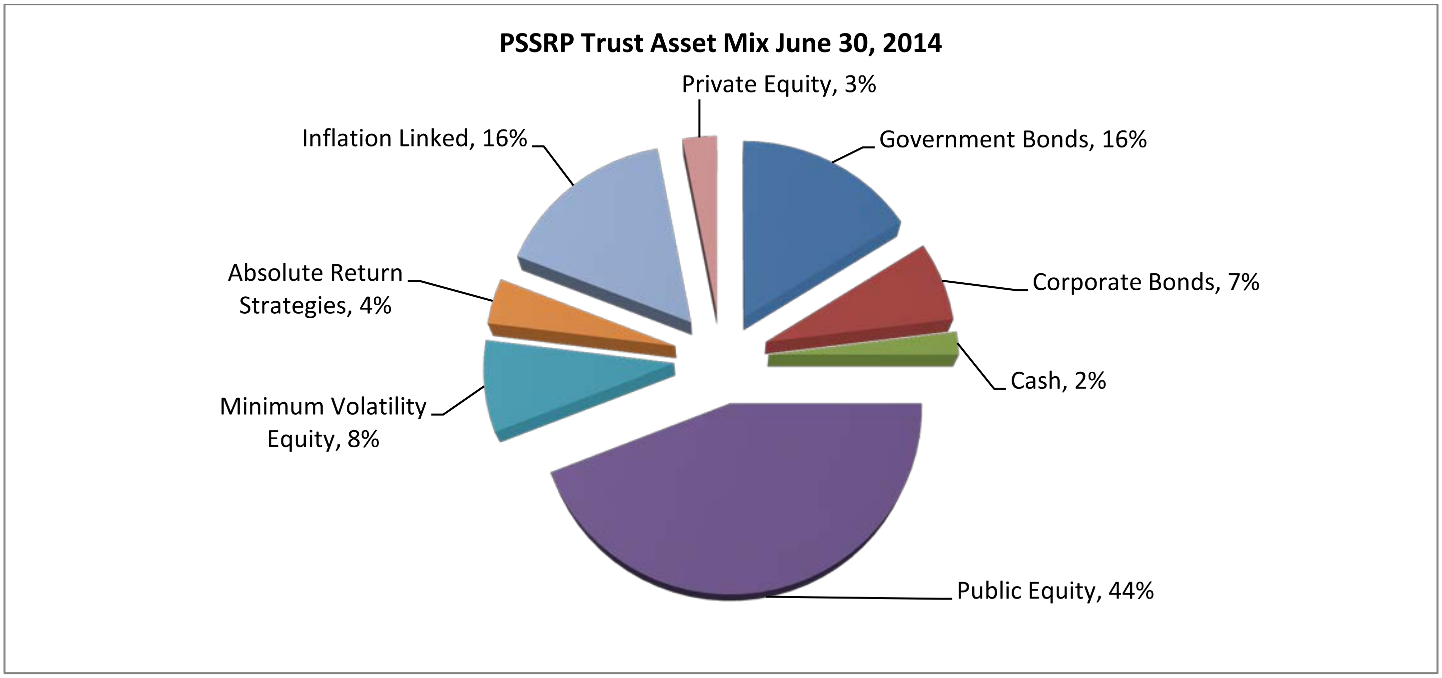
The investment return for the PSSRP Trust for the six months ending June 30, 2014 was 8.03% compared to its total fund benchmark of 7.53%. This investment return results in 0.50% of value added for the first six months of the calendar year.

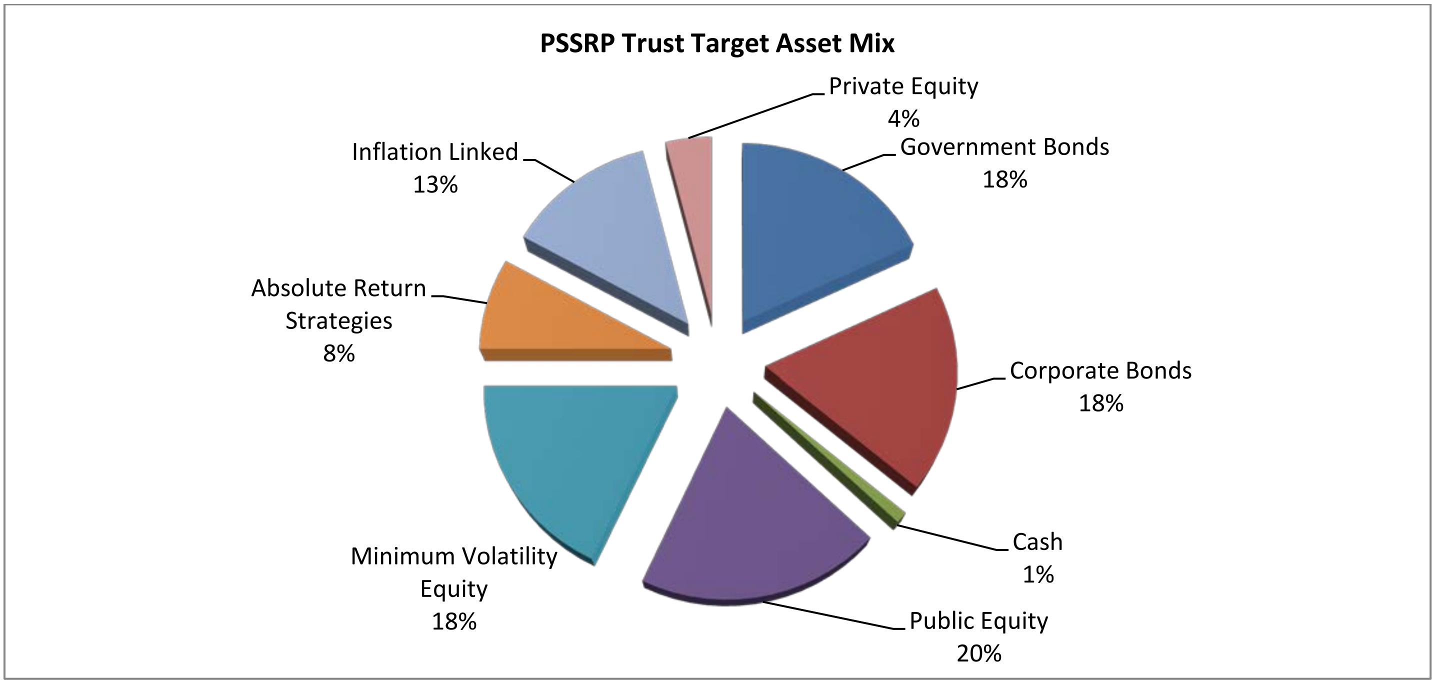
The fair value of the PSSRP Trust assets at June 30, 2014 was $6.36 billion, up $0.4 billion from the December 31, 2013 value.

As reported in the Spring/Summer 2014 PSSRP newsletter, the transition of the PSSRP Trust asset mix to the proposed target asset mix established in the Conversion Report from the independent Actuary had not yet begun at June 30, 2014. Since that date however, NBIMC has conducted a thorough investment policy review and provided a set of recommendations that were approved by the PSSRP Trustees in August. The transition is now well underway and expected to be completed early in 2015. This investment policy review was focused on determining an optimal investment asset mix policy that is focused specifically on meeting the PSSRP liability as outlined in the initial Actuarial Valuation and Conversion Report of January 1, 2014, while at the same time meeting the risk management tests outlined in the *Pension Benefits Act*.

The revised target asset mix is expected to provide a similar long-term investment return as the initial investment policy (i.e. greater than 4.75% per year), however with less expected risk. The main changes have been a higher allocation to Corporate instead of Government Bonds, and a larger allocation to Absolute Return Strategies versus Public Equity. We have begun an asset mix transition process to the new investment policy targets which we expect to complete in early 2015.

The asset mix at June 30, 2014, compared to the new target asset mix was:





Market Outlook Summary

The global economy continues to grow at below trend rates as it continues to rebound from the effects of the financial markets crisis of 2008-09. This rebound has however begun to show signs of a significant divergence as growing second quarter GDP and production reports in North America and the United Kingdom have been much better than the declining growth rates being reported in Europe and many emerging market countries. These mixed growth rates and continued geopolitical concerns in Eastern Europe and the Middle East have kept interest rates low, caused the U.S. dollar to strengthen significantly versus the currencies of most other countries, and resulted in a drop in most commodity market prices including oil.

A majority of economic indicators however continue to point to solid equity market returns in 2014, led by positive employment reports, and continued strong production data reports. Solid consumer confidence data continues to be reported. Corporate earnings growth also continues to remain solid. Inflation remains well below central bank target levels in most jurisdictions, but is higher than most current interest rate levels.

While we continue to recognize that global growth concerns and the geopolitical situation will continue to increase market volatility from the very low levels witnessed earlier in the year, we expect that equity markets will continue to provide favourable returns versus bonds as they remain generally fairly priced versus other investment alternatives.

All this being said, it does look as if we may have finally reached the low to mid single digit return environment that many market pundits have been expecting over the past few years.

Questions

For questions, please contact the Pensions and Employee Benefits Division toll free at **1.800.561.4012** or **506.453.2296** (Fredericton).