NEW BRUNSWICK PUBLIC SERVICE PENSION PLAN

FUNDING POLICY

Amended as of September 22, 2015

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I. PURPOSE OF THE PLAN AND FUNDING POLICY

The purpose of the New Brunswick Public Service Pension Plan (the "**Plan**") is to provide secure pension benefits to members and former members (collectively "**members**") of the Plan without an absolute guarantee, but with a risk-focused management approach delivering a high degree of certainty that base benefits can be met in the vast majority of potential future economic scenarios.

The primary focus is to provide a highly secure base lifetime pension at normal retirement age. However, the intention is that additional benefits 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 a shared risk 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.

A shared risk 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). 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 policy actuarial 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.

Capitalized terms used in this Funding Policy that are not defined herein have the meaning given to such terms in the Plan.

The Plan is the result of a conversion of the plan under the *Public Service Superannuation Act* (New Brunswick) ("**PSSA**") pursuant to *An Act Respecting Public Service Pensions* (New Brunswick), which among other things repealed the PSSA.

[1] In this Funding Policy, The Minister of Finance for New Brunswick, the Employer, and the Unions together constitute the **"Parties"**, where the **"Employer"** is Her Majesty The Queen in Right of New Brunswick and the parties listed in Appendix E to the Plan text, and the **"Unions"** are those unions listed in Appendix F to the Plan text.

II. RISK MANAGEMENT

The Plan, contribution rules and this Funding Policy were designed to achieve or exceed the risk management goals prescribed under Regulation 2012-75 (the **"Regulations"**) to the Pension Benefits Act (New Brunswick) (the **"PBA"**) at conversion. These goals are described below.

A. Goals

The primary 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 or future 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.

There are two secondary risk management goals. These are:

- on average provide contingent indexing on base benefits for service rendered on or before the conversion date that is in excess of 75% of the indexation provided under the pre-conversion plan over a 20-year period;

- on average over a 20-year period, provide other ancillary benefits that exceed 75% of the value of the ancillary benefits described in the Plan text at conversion.

For the purposes of meeting these goals, base benefits include the accrual of service of members over the projection period and any contingent indexing provided based on the financial performance represented by each scenario tested.

If, through the testing process, a scenario allows for indexing in a given future year, this contingent indexing amount becomes part of the base benefits at the time it is granted.

B. Procedures

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 goals above. This provides at least 20,000 observations from which to measure whether the risk management goals have 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"**).

- The Plan's contributing member population is assumed to be stable, such that each departure from the Plan, for any reason, will be replaced by a new entrant. If required under subsection 100.7(3) of the PBA or as approved by the Superintendent under paragraph 15(2)(d) of the Regulations, the assumption regarding the contributing member population may be altered.

All risk management goals are tested at the Conversion Date. In addition, the primary risk management goal will be tested annually. The results of this test combined with the results of the funding policy 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 primary risk management goal must be achieved or exceeded:

- At January 1, 2014 (i.e. the Conversion Date);

- At the date a permanent benefit change, as defined in the Regulations, is made;

- At the date a benefit improvement, as defined in the Regulations, is made;

- At the date contribution adjustments that exceed those provided under Section III are implemented; and

- At the date the Schedule 1 Temporary Contributions are reduced before the date that is five (5) years from the Effective Date under the conditions provided for under Section III.

- At the date the Schedule 2 Temporary Contributions are reduced before the date that is ten (10) years from the Effective Date under the condition provided for under Section III.

The secondary risk management goals must be achieved or exceeded:

- At January 1, 2014 (i.e. the Conversion Date); and

- At the date a permanent benefit change, as defined in the Regulations, is made.

The terms "permanent benefit change" and "benefit improvement" are defined in the Regulations as follows:

- **"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.

- **“benefit improvement”** means an escalated adjustment for past periods or an increase in other ancillary benefits allowed under the funding policy.

III. CONTRIBUTIONS

The contributions required by the Plan include the initial contributions and contribution adjustments as may be required by the Funding Policy. There are also temporary contributions required to be made by the Employer.

A. Initial Employee Contributions

The initial Employee contribution rate shall be 7.5% of Earnings for Earnings up to the YMPE and 10.7% of Earnings for Earnings above the YMPE, subject to the *Income Tax Act* (Canada) and the regulations thereunder (the "**ITA**"). Subject to paragraph D3 below, these initial Employee contribution rates are to remain the same for the first fifteen (15) years after the Effective Date, unless altered by:

- Contribution adjustments triggered under the Funding Policy;
- A reduction required under 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 PBA, Regulations and the ITA;
- Other changes to the Plan beyond those contemplated by this Funding Policy, subject to the requirements of the PBA, Regulations and the ITA.

B. Initial Employer Contributions

The initial Employer contribution rate shall be 11.25% of Earnings. Subject to paragraph D3 below, the initial Employer contribution rate is to remain the same for the first fifteen (15) years after the Effective Date, unless altered by:

- Contribution adjustments triggered under the Funding Policy;
- A reduction required under 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 PBA, Regulations and the ITA;
- Other changes to the Plan beyond those contemplated by this Funding Policy, subject to the requirements of the PBA, Regulations and the ITA.

C. Employer Temporary Contributions

1. *Employer Temporary Contributions – First Schedule*

Commencing on the Effective Date, the Employer is also required to make temporary contributions at the rate of 0.5% of Earnings in respect of all Employees (the **"Schedule 1 Temporary Contributions"**). The Schedule 1 Temporary Contributions shall cease on the date that is five (5) years from the Effective Date or, if earlier, when the Plan achieves an open group funded ratio, as defined in the Regulations, of 140% measured assuming the Schedule 1 Temporary Contributions have ceased. These Schedule 1 Temporary Contributions are to remain at 0.5% of Earnings in respect of all Employees during this time period unless altered by a reduction required under the ITA.

2. *Employer Temporary Contributions – Second Schedule*

Commencing on the Effective Date, the Employer is also required to make temporary contributions at the rate of 0.75% of Earnings in respect of all Employees (the **"Schedule 2 Temporary Contributions"**). The Schedule 2 Temporary Contributions shall cease on the date that is ten (10) years from the Effective Date or, if earlier, when the Plan achieves an open group funded ratio, as defined in the Regulations, of 140% measured assuming the Schedule 2 Temporary Contributions have ceased. These Schedule 2 Temporary Contributions are to remain at 0.75% of Earnings in respect of all Employees during this time period unless altered by a reduction required under the ITA.

D. Contribution Adjustments

Adjustments to the initial contribution rates shall be made by the Board of Trustees based on the conditions set out below.

1. *Initial Contribution Rate Increases*

The Board of Trustees must trigger an increase in the initial Employee contribution rate of up to 1.5% of Earnings if the open group funded ratio of the Plan, as defined by the Regulations, falls below 100% for two successive year ends (before taking into account any initial contribution rates increase). The Board of Trustees must also trigger an increase in the initial Employer contribution rate at the same time. The increase to the initial Employer contribution rate shall equal the increase to the initial Employee contribution rate.

If necessary, the amount of the increase may be reduced to obtain the accounting treatment that reflects the substance of the goals of the Plan by modifying the asset mix.

The contribution rates increase shall take effect no later than twelve (12) months following the funding policy valuation date that triggered the need for the initial contribution rates increase. The initial contribution rates increase shall be removed no later than twelve (12) months following a funding policy valuation date that reveals an open group funded ratio of at least 110%, without the effect of the contribution increase, and the funding goals under the Regulations are met.

During any period where there are increased contributions, indexation shall be suspended.

2. *Initial Contribution Rate Reduction*

Subject to all prior steps set forth in the funding excess utilization plan in Section V having been implemented, and provided the Schedule 1 Temporary Contributions and Schedule 2 Temporary Contributions have ceased, the Board of Trustees shall trigger a reduction in initial contribution rates if the conditions set forth in the funding excess utilization plan in Section V are met, a valuation reveals a funding level of greater than 140%, and the funding goals under the Regulations can still be met after the reduction in initial contributions, provided that the funding level immediately following such decrease in contribution rates remains at least 140%. The reduction in initial contribution rates shall take effect no later than twelve (12) months following the funding policy valuation date that triggered the need for the change.

Should the conditions set out in the first paragraph above occur in the first fifteen (15) years following the Effective Date, if the Employer contribution rate is in excess of the Employee contribution rate, the Employee contribution rate may be decreased by up to 0.5% of Earnings and the Employer contribution rate may be decreased by up to 3.5% of Earnings; provided that any such decrease must be applied first to the Employer contribution rate until such time as the Employee and Employer contribution rates are equal. Once the contribution rates are equal, any further contribution decreases shall be applied to both the Employer contribution rates and the Employee contribution rate.

Should the conditions set out in the first paragraph above occur on or after the date that is fifteen years following the Effective Date, both the Employer contribution rate and the Employee contribution rate shall be decreased in equal amounts up to 2% of Earnings each.

The reduction in initial contribution rates shall be removed no later than twelve (12) months following a funding policy valuation date that reveals an open group funded ratio below 140%.

3. *Initial Contribution Rate – Change in Plan Membership*

If at any time there is an increase or a reduction in Employees employed by the Employer of greater than 5% in a given year, the initial contribution rates 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 policy valuation.

4. *Initial Contribution Rate – 15 Years After Conversion Date*

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

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

(i) The average Employee initial contribution rate produced by the initial Employee contribution formula of 7.5% of Earnings for Earnings up to the YMPE and 10.7% of Earnings above the YMPE shall be determined at such time and 11.25% 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 initial Employee 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 Employee contributions by contributing the Contribution Amount.

These contribution rates are subject to adjustment by the Board of Trustees from time to time in accordance with paragraphs 1 and 2 above.

E. 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 eligible contributions (including initial contributions and Temporary Contributions) still exceed the limit allowed under the ITA, then the contribution rates shall be further reduced in equal amounts for both the Employees and the Employer to the limit allowed under the ITA.

F. Sharing of Contributions

All contributions shall be shared between Employees 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 Employees and the Employer; provided that if the Employer contribution rate is in excess of the Employee 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 Employee contributions are equal. Once the contribution levels are equal, any further contribution decreases shall be applied equally to the Employer and the Employees.

G. 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 open group funded ratio of the Plan falls below 100% for two (2) successive plan year ends and after implementing the maximum increase in contributions triggered by Section III.

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 actions being taken and the effect and timing of these actions on the contributions and benefits.

The funding deficit recovery plan shall consist of the following actions in the order of priority as listed below:

1. Change retirement rules for service on and after the Conversion Date for non-vested members to the equivalent of a full actuarial reduction for retirement before age 65.

2. Change retirement rules for service prior to the Conversion Date for non-vested members to the equivalent of a full actuarial reduction for retirement before age 60.

3. Reduce base benefit accrual rates for future service after the date of implementation of the funding deficit recovery plan by not more than 5%.

4. Reduce base benefits on a proportionate basis for all members regardless of membership status for both past and future service in equal proportions.

The above actions shall be taken one by one until such time as the funding goals under the Regulations are met. Further actions are triggered when the funding goals under the Regulations cannot be achieved with the cumulative effect of all previous actions, such goal being measured annually and follow-up actions to take effect as per the timelines below.

For example, if the funding deficit recovery plan is triggered, the Board of Trustees would implement step 1 first, and then determine if the funding goals under the Regulations are met. If step 1 is sufficient to meet the funding goals under the Regulations, no further action would be required at that time.

If step 1 is not sufficient to achieve the funding goals under the Regulations, changes as described under step 2 would be implemented.

The base benefit reductions under step 4, if ultimately required, shall be such that the funding goals under the Regulations for such purposes are achieved.

The measurement date is the date of the funding policy valuation report that triggered the need for the action or actions taken under the funding deficit recovery plan.

The timing of the changes shall be as follows:

- For the changes set out under steps 1-3, no later than twelve (12) months following the date of the funding policy valuation report that triggered the need for the action.

- For step 4, no later than eighteen (18) months following the date of the funding policy valuation report that triggered the need for base benefit reductions.

If any of steps 1 - 4 are implemented, then priority must be given to reversing these changes in reverse order of application before any future indexation is granted.

V. FUNDING EXCESS UTILIZATION PLAN

The funding excess utilization plan describes the actions the Board of Trustees must take or consider when the open group funded ratio exceeds 105%. However, if the open group funded ratio is above 105% and an adjustment to increase initial contribution rates under Section III is still in effect, no action shall be taken under the funding excess utilization plan.

A. Excess Available for Utilization

When action can be taken under the funding excess utilization plan, the amount available for utilization is as follows:

1. 1/6th of the funds that make up the excess of the open group funded ratio at the valuation date (to a maximum of 140%) over 105%; plus

2. 100% of the funds that make up the excess of the open group funded ratio at the valuation date over 140%, if any.

The actions that can be taken depend on whether the base benefits and/or ancillary benefits have ever been reduced and such reduction not subsequently reversed and on the priority order set out below.

B. Base Benefits Previously Reduced and No Reversal

If base benefits have previously been reduced and/or other steps in the funding deficit recovery plan have previously been taken, all amounts available for utilization must first be used in the following order of priority:

1. Base benefit reductions (with respect to both past base benefits and future base benefits) applied under step 4 of Section IV, if any, must be reversed with respect to future payments after the date of reversal until all such reductions to base benefits have been reversed.

2. Base benefit reductions (with respect to future base benefits) applied under step 3 of Section IV, if any, must be reversed with respect to future payments after the date of reversal until all such reductions to base benefits have been reversed.

3. Ancillary benefit reductions applied under step 2 of Section IV, if any, must be reversed with respect to future payments after the date of reversal.

4. Ancillary benefit reductions applied under step 1 of Section IV, if any, must be reversed with respect to future payments after the date of reversal.

C. Other Actions

If base benefits and/or ancillary benefits have never been reduced or after all previous reductions have been reversed for future payments, the Board of Trustees may take the following actions with respect to the amount available for utilization. Such actions shall be taken in the following order of priority:

1. Provide indexing of base benefits for future payments up to the full CPI for every year that was missed or only partially covered since the Conversion Date, starting with the oldest period for which less than the full increase in the average CPI was provided up to the most recent in chronological order. The indexation percentage applied to base benefits shall be the same for all members subject to an individual limit of recovery of full CPI up to January 1 of the year that follows the valuation date or coincides with it if the date of the valuation is January 1st of the same year.

   "CPI" means the Consumer Price Index as defined in subsection 8500(1) of the Income Tax Regulations (Canada) and, in determining any increase in the CPI from year to year for purposes of the calculation of the COLA, the annual increase will be determined based on the increase in the average of the CPI for the twelve (12) month period ending June 30 in the year preceding that year relative to the same average on the preceding June 30.

2. Apply contribution reductions as required under Section III.

3. Establish a reserve to cover the next ten (10) years of potential contingent indexing.

4. If all of the above steps have been taken, the Board of Trustees can 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 excess funds to risk management purposes based on best practices at the time the changes are proposed. (This could include purchasing insured contracts, de-risking of assets or holding additional reserves);

   ii. Exceed the primary risk management goal for benefit security under the PBA and Regulations by 1.5% (based on current rules under the PBA and Regulations, this would mean a 99% probability of not having to reduce base benefits);

   iii. Do not negatively impact the expected future indexing 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 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 PBA, Regulations 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 the opportunity to have the report peer reviewed by a third party to validate the proposal, within a reasonable time frame, before the proposed changes become effective.

Each of the actions above can only be implemented after confirming that the funding goals under the Regulations are met after the change is made.

Except for the timing of contribution reductions (described in Section III), the timing of the above actions shall be the first of the year that is twelve (12) months after the date of the funding policy valuation report that triggered the actions.

VI. ACTUARIAL ASSUMPTIONS

The Plan's actuary shall conduct a funding policy actuarial valuation as at the Conversion Date, and as at December 31st of each year thereafter. The actuarial assumptions used for the funding policy actuarial valuation and factors to consider regarding changing such assumptions are discussed in this section.

A. Discount Rate

The initial discount rate shall be 4.75% per annum. This discount rate shall remain in effect for the first two actuarial valuation reports filed after the Conversion Date, *i.e.* the filed valuations as at December 31, 2014 and December 31, 2015.

On the advice of the Plan's actuary, the Board of Trustees may consider a change in the discount rate for subsequent funding policy actuarial valuations.

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

B. Mortality

The mortality table shall be the UP-94 generational mortality table using a projection scale reflecting the most recent life expectancy improvement data.

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 actuary to reflect even greater improvements in 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.

VII. ANNUAL REVIEW

The Funding Policy shall be reviewed each year in accordance with the requirements of the PBA and Regulations. 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 annually.

2. A funding policy actuarial valuation report shall be prepared as at the Conversion Date, and as at December 31st of each year thereafter.

3. Calculation of the open group funded ratio at each funding policy valuation.

4. Based on the results of step 2, identification of Board of Trustee action or actions required or possible under this Funding Policy.

5. Test of risk management goals as required under the Funding Policy assuming the action or actions in step 4 are taken; and if the risk management goals are met, move to step 7.

6. If the test in step 5 reveals that the risk management goals are not met, then the actions in step 4 shall be adjusted under the terms of the Funding Policy such that the risk management goals required to be met under the terms of this Funding Policy are met.

7. 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 PBA and Regulations requirements.

8. Report to members and the Parties.

9. Implement actions that are permitted based on the above steps.

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

- The PBA requires that if an Employer 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 also 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.

SCHEDULE "A"

The Parameters

- Initial Employee Contributions (Section III(A))
- Initial Employer Contributions (Section III(B))
- Employer Temporary Contributions (Section III(C))
- Contribution Adjustments (Section III(D))
- Sharing of Contributions (Section III(F))
- Expenses (Section III(G))
- Funding Deficit Recovery Plan (Section IV)
- Funding Excess Utilization Plan (Section V)