CERTIFIED COPY OF
MEMORANDUM OF UNDERSTANDING REGARDING THE PENSION PLAN FOR CUPE EMPLOYEES OF NEW BRUNSWICK HOSPITALS
BY
BOARD OF TRUSTEES OF THE SHARED RISK PLAN FOR CUPE EMPLOYEES OF NEW BRUNSWICK HOSPITALS
(the "Board of Trustees")

The undersigned, Renée Laforest, Chairperson and David Matthews, Vice-Chairperson of the Board of Trustees, certify on behalf of the Board of Trustees, and not in any personal capacity, that the attached is a true and complete copy of the Memorandum of Understanding regarding the Pensions Plan for CUPE Employees of New Brunswick Hospitals, dated May 18, 2012.

DATED the ________ day of ________________, 2012

BOARD OF TRUSTEES OF THE SHARED RISK PLAN FOR CUPE EMPLOYEES OF NEW BRUNSWICK HOSPITALS

Name: Renée Laforest
Title: Chairperson

BOARD OF TRUSTEES OF THE SHARED RISK PLAN FOR CUPE EMPLOYEES OF NEW BRUNSWICK HOSPITALS

Name: David Matthews
Title: Vice-Chairperson

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MEMORANDUM OF UNDERSTANDING REGARDING THE PENSION PLAN FOR CUPE EMPLOYEES OF NEW BRUNSWICK HOSPITALS

THIS AGREEMENT made the 18 day of May, 2012.

A M O N G:

THE CANADIAN UNION OF PUBLIC EMPLOYEES and its Council of Hospital Unions and Local 1252

"the **Union,**"

and

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF NEW BRUNSWICK AS REPRESENTED BY THE PREMIER

(the "**Employer**")

WHEREAS the Board of Trustees issued an official notice of the need for changes on January 4, 2011 with respect to the Pension Plan for CUPE Employees of New Brunswick Hospitals which provided certain guidance regarding the powers of the Trustees of the Board for the CUPE Hospitals Plan;

AND WHEREAS the CUPE Hospitals Plan is significantly underfunded and the actuary who advises the Trustees of the CUPE Hospitals Plan has advised that, in its current form, the CUPE Hospitals Plan is unsustainable in the long term;

AND WHEREAS on September 15, 2011, the Honourable Blaine Higgs, Minister of Finance, appointed a Task Force consisting of Pierre-Marcel Desjardins, W. Paul McCrossan and Susan Rowland to review public sector pension plans by respecting, among other things, the principles of sustainability, affordability, and secure benefits;

AND WHEREAS the Task Force, in consultation with CUPE 1252, (the bargaining agent) and the Employer to the CUPE Hospitals Plan, has reviewed the CUPE Hospitals Plan and has proposed a redesigned pension plan which it recommends be adopted by the Union and Employer to this Memorandum of Understanding;

AND WHEREAS the Union and the Employer have agreed to convert the CUPE Hospitals Plan in accordance with this Memorandum and the enabling legislation;

NOW THEREFORE the Union and Employer enter into this Memorandum of Understanding in respect of the full-time and part-time members of the Union who are now, or who will become members of the CUPE Shared Risk Plan under the changes set out hereinafter;

ARTICLE I

1.1 The Union and Employer understand that the enabling legislation, consisting of Part II of the *Pension Benefits Act*, will be submitted to the Legislature for its consideration. All parts of this Memorandum of Understanding are conditional on the substance of the enabling legislation receiving Royal Assent.

1.2 The Employer and the Union will take all such further actions, execute and deliver such further agreements, instruments and documents in writing and do all such other acts and things as may be necessary and/or desirable to achieve the conversion of the CUPE Hospitals Plan to the Shared Risk CUPE Hospitals Plan, including amending the relevant Collective Agreement after passage of the enabling legislation.

ARTICLE II

1.3 **Definitions:**

"**ancillary benefit**" has the same meaning as is set out in the enabling legislation, and, for greater certainty, also includes future Cost of Living Adjustments ("COLA").

"**base benefits**" means, the amount of pension paid or payable to a member at any given time as described under this Memorandum of Understanding. For greater certainty, the amount of pension paid is the amount paid to a retired member or eligible dependent at the relevant date and the amount of pension payable is the amount accrued to the credit of an active or deferred member for service rendered in the past and includes any COLA granted up to the relevant date and payable in accordance with any vested early retirement provisions at the relevant date.

"**CUPE Hospitals Plan**" means the Pension Plan for CUPE Employees of New Brunswick Hospitals, Registration #0385849;

"**CUPE Shared Risk Plan**" means the CUPE Hospitals Plan that is converted to a Shared Risk Plan as at the Conversion Date under the enabling legislation;

"**Claimant**" means the spouse or estate of the member, or the member's beneficiary;

"**Collective Agreement**" means the collective agreement covering employees in Part III of the *Public Service Labour Relations Act* of the Province of New Brunswick, represented by the bargaining units of the Union as follows:

i. The Certificate No. 011 HO 5a covering Institutional Services;

ii. The Certificate No. 023 HO 5b covering Patient Services; and

iii. The Certification No. 010 HO 4a covering Clerical, Stenographic and Office Equipment Group "**contribution holidays**" means the full or partial reduction of the contributions normally paid by Employees and the Employer into the Shared Risk Plan where reductions are in the same proportion as required contributions from the Employees and Employer, as defined in the Funding Policy;

"**Conversion Date**" means July 1, 2012;

"**enabling legislation**" means the *Pension Benefits Act* (New Brunswick) as it may be amended prior to the Conversion Date;

"**Employees**" means the relevant full-time and part-time employees covered by the Collective Agreement who now are, or who will become members of the CUPE Shared Risk Plan by virtue of their inclusion as Full-Time or Part-Time employees in the bargaining units covered by the Collective Agreement;

"**Shared Risk Plan**" means a pension plan having all of the characteristics set out in Article III of this Memorandum;

ARTICLE III

1.4 The CUPE Hospitals Plan shall be converted to a Shared Risk Plan which will have the following characteristics:

Purpose

(a) The purpose of a shared risk plan is to provide secure pension benefits to 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.

(b) The enabling legislation will extinguish all accrued rights to automatic future COLA adjustments for all members of the CUPE Hospitals Plan and the automatic benefit from the effect of future salary increases on the current final average salary formula for all active members of the CUPE Pension Plan. These automatic future adjustments will be replaced by contingent indexing as allowed under the Funding Policy.

(c) A required funding and risk management framework will be established under the enabling legislation mandating that an appropriate allocation be made within the required contribution formula to accrue additional funds such that there is a reasonable expectation (not guaranteed) that COLA can be granted.

(d) The required funding and risk management framework will also be designed to result in a very low probability of base benefits ever being reduced. The Funding Policy will contain specific steps to recover from unacceptable funding levels that will take priority over any reduction of the base benefits. However, in highly unlikely circumstances, base benefits may need to be reduced and if this occurs, priority will be given to the recapture of this reduction once funding levels allow, as specified under the Funding Policy.

Benefits

(e) The base benefit for retired members, eligible dependents in receipt of a pension and deferred members shall be the amount of pension paid or payable at the Conversion Date, plus all COLA adjustments as may be granted by the Board of Trustees from time to time but at no time will include potential future COLA adjustments.

(f) The base benefit accrual rate for active members:

(i) shall remain unchanged at 1.75% of regular salary up to the Year's Maximum Pensionable Earnings ("YMPE") and 2% for salary above the YMPE for periods of eligible service prior to the January 1, 1997 until a change is required under the Funding Policy or is agreed to between the Union and the Employer;

(ii) shall also remain unchanged at 1.40% of regular salary up to the Year's Maximum Pensionable Earnings ("YMPE") and 2% for salary above the YMPE for periods of eligible service from the January 1, 1997 to the Conversion Date until a change is required under the Funding Policy or is agreed to between the Union and the Employer;

(iii) shall be 1.4% of regular salary up to the YMPE and 2% for salary above the YMPE for periods of eligible service on or after the Conversion Date until a change is required under the Funding Policy or is agreed to between the Union and the Employer.

(g) The bridge pension which is an ancillary benefit shall remain unchanged at $18 per month per year of service for all prior and future periods of eligible service until a change is allowed or required under the Funding Policy or is agreed to between the Union and the Employer.

(h) The normal form of pension is also an ancillary benefit and shall be a life pension with a five-year guarantee. Employees with a spouse at retirement will be subject to the *Pension Benefits Act* minimum survivor benefits and spousal waiver rules.

(i) The base benefit for each active member shall be calculated as follows:

(i) for active members with credited service under the CUPE Hospitals Plan prior to the January 1, 1997, the base benefit accrual rates as defined in 3.1(f)(i) above multiplied by the best 5 year average salary and YMPE* at the Conversion Date as defined in the CUPE Hospitals Plan times years and fractions thereof of credited service prior to January 1, 1997 in the CUPE Hospitals Plan at the Conversion Date; PLUS

(ii) for active members with credited service under the CUPE Hospitals Plan after December 31, 1996 and prior to the Conversion Date, the base benefit accrual rates for the relevant period of service as defined in 3.1(f)(ii) above multiplied by the best 5 year average salary and YMPE* at the Conversion Date as defined in the CUPE Hospitals Plan times years and fractions thereof of credited service from January1, 1997 to the Conversion Date in the CUPE Hospitals Plan at the Conversion Date; PLUS

(iii) for service on or after the Conversion Date, the base benefit accrual rate in 3.1(f)(iii) times the salary earned during the relevant year; PLUS

(iv) all COLA adjustments as may be granted by the Board of Trustees from time to time, but at no time will include potential future COLA adjustments.

* *where an active member has less than 5 years of service at the Conversion Date, the average salary and YMPE will be calculated on the actual period of service.*

(j) The eligibility for an immediate pension (retirement rules) which is also an ancillary benefit shall be as follows:

(i) for service prior to the Conversion Date, an unreduced pension at age 60 with a reduction of 0.25% per month (3% per year) early for retirements between ages 55 and 60.

(ii) for service on or after the Conversion Date, an unreduced pension at age 65 with a reduction of 5/12% per month (5% per year) early for retirements between ages 55 and 65.

(k) A member who elects to retire after age 65, shall receive a pension at retirement equal to the base benefit at the date of retirement, but further increased by 0.6% per month (7.2% per year) for each month that actual retirement is delayed beyond age 65 up to age 70.

(l) In the event a member terminates (includes division of pension on marriage breakdown) from the CUPE Shared Risk Plan prior to reaching eligibility for an immediate pension or passes away prior to retirement, the following shall apply:

(i) The current 50% excess contribution rule will be replaced by a 100% excess contribution rule;

(ii) The transfer value of a member or a Claimant will be the lesser of:

(1) The relevant member's or Claimant's share of the CUPE Shared Risk Plan's assets as defined by the Board of Trustees from time to time or as is provided in the Funding Policy. This share is expected to be based upon a calculation of the value of the member's base benefits at the date of termination, using assumptions as prescribed in the Funding Policy, divided by the value of the liabilities of the CUPE Shared Risk Plan for base benefits as at a date to be determined by the Board of Trustees, and by multiplying that ratio by the market value of the CUPE Shared Risk Plan's assets at the same date as the date of measurement of the liabilities or such similar approach respecting the principles underlying the CUPE Shared Risk Plan as may be deemed appropriate by the Board of Trustees; and

(2) The transfer value based on rules similar to the current commuted value rules for a fully indexed base benefit and including all ancillary benefits at the date of termination or such other appropriate maximum as the Board of Trustees may determine from time to time.

Unless otherwise elected by the member, the amount shall remain in the CUPE Shared Risk Plan until the retirement, death or marriage breakdown of the member and the member shall be entitled to all future enhancements declared by the Board of Trustees.

Funding and Risk Management

(m) The Employer and the Employees will remit monthly contributions to the Board of Trustees of the CUPE Shared Risk Plan as is required by the Board of Trustees from time to time. Initially, the contributions required shall not be less than 10.1% of covered payroll from the Employer and 9.0% of covered payroll from the Employees and thereafter as may be required from time to time by the Board of Trustees subject to the triggering mechanism and limitations imposed by the Funding Policy.

(n) Contributions will be defined at the inception of the CUPE Shared Risk Plan to provide the desired security levels for base and ancillary benefits. As such, the standards established by the Task Force are such that the required contributions:

(i) Must result in at least a 97.5% probability that base benefits will not be reduced over the 20 year projection period;

(ii) Must result in total expected average COLA adjustments of at least 75% of CPI over the 20 year projection period;

(iii) Must be sufficient to meet the target funding level established at inception of the CUPE Shared Risk Plan over a 15 year open group method;

(iv) Must not be increased automatically by more than allowed under the Funding Policy; and

(v) Subject to (o) below, must not be automatically decreased by more than allowed under the Funding Policy.

(o) Contribution holidays will only be permitted if required under the *Income Tax Act* (Canada), will apply to both Employees and the Employer and will only be applied in the manner allowed under the Funding Policy

(p) A Funding Policy must also be established in accordance to the parameters accepted by the Union and Employer to provide the rules that shall be followed for determining both the timing and level of contribution rates, the level of COLA that may be allowed depending on the financial position of the plan and the limits under the *Income Tax Act* (Canada), the level of ancillary benefits, the deficit recovery plan and reductions in base benefits among the key features.

(q) The Funding Policy shall at a minimum contain:

(i) Definition of the key terms used in the Funding Policy.

(ii) A clear statement of the funding goals. Such funding goals shall meet or exceed the minimum set out in the legislation.

(iii) A description of the cost sharing between the Employees and Employer.

(iv) A description of the required contributions and changes allowed under what conditions. Such changes in contributions shall be at the sole discretion of the Trustees and shall be implemented when required and in the amounts allowed by the Funding Policy.

(v) A clear statement as to responsibility for plan expenses. For the CUPE Shared Risk Plan, all expenses are paid by the plan unless otherwise agreed.

(vi) A deficit recovery plan that shall contain both the priority order and the level of changes allowed. The deficit recovery plan shall be such that reduction of base benefits would occur as a last step in the deficit recovery plan.

(vii) Funding excess rules that specify at what funding level excess funds can be used for improvement of benefits and how much of the excess can be allocated for that purpose at each of the annual actuarial valuation of the plan.

(viii) A description of the financial measurement basis adopted by the plan.

Governance

(r) A Board of Trustees will administer the CUPE Shared Risk Plan. The Employer and the Union will appoint such trustees, in equal numbers. Any conflicts will be addressed as required under the *Pension Benefits Act* as amended. A Board of Trustees should be fully established by July 1, 2013 at the latest. In the meantime, the current Board of Trustees for the CUPE Hospitals Plan shall assume the responsibility of the Board of Trustees.

(s) After the Conversion Date, the Employer will have no financial obligations or responsibilities for the CUPE Shared Risk Plan save and except for the obligation to make contributions to it as per the terms of the Funding Policy.

(t) The Board of Trustees shall be responsible for:

(i) All measurements and reporting required by the enabling legislation including regular actuarial valuations and stochastic modelling of the assets and the liabilities of the CUPE Shared Risk Plan;

(ii) Establishing an investment policy subject to annual review for the purpose of ensuring that the desired security for both the base benefits and the ancillary benefits that are expected to be achieved;

(iii) Administering the plan in accordance with the Funding Policy and, for greater clarity, this includes the power to increase or decrease contributions and benefits in accordance with the Funding Policy;

(iv) All other requirements of an Administrator under the *Pension Benefits Act* as amended;

Article II

CONVERSION DETAILS

2.1 The following items describe the key principles of the proposed conversion:

(a) The Shared Risk Plan will be effective from and after the Conversion Date to the extent enabling legislation has received Royal Assent by that date. All conversion benefit calculations will be made as of that date without regard to any administrative changes required to effect the conversion.

(b) Part-time members of the Union will be given the option of transferring their money purchase account from their existing part-time pension plan so as to obtain a Base Benefit in the Plan calculated subject to rules and conditions as may be approved by the Board of Trustees from time to time based on the principles underlying the CUPE Shared Risk Plan. For greater certainty, the Board of Trustees may require that, in the case of purchase of service related to previously transferred commuted values from the CUPE Hospitals Plan to another pension fund or retirement savings vehicle, the cost to purchase base benefits under the CUPE Shared Risk Plan be on the same basis as the amount previously transferred out of the CUPE Hospitals Plan if greater than the normal purchase rules.

(c) The CUPE Shared Risk Plan will be subject to the enabling legislation.

(d) CUPE 1252 confirms that they do not require membership ratification in order to enter into this Memorandum of Understanding or any subsequent agreement concerning the redesign of the CUPE Hospitals Plan.

(e) This Memorandum of Understanding does not affect the terms and conditions of employment established through the collective bargaining process negotiated from time to time between the Union and the Employer, other than as required to convert the CUPE Hospitals Plan to the CUPE Shared Risk Plan.

(f) Conditions favourable to CUPE Hospitals Plan members not expressly or by necessary implication set out in this Memorandum of Understanding are intended to be preserved in the CUPE Shared Risk Plan.

Article III

GENERAL

3.1 **Counterparts**

This Memorandum of Understanding may be executed in any number of counterparts (including by way of facsimile) and all of such counterparts taken together will be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, each of the signatories hereto has caused this Memorandum of Understanding to be signed by its respective duly authorized officers or representatives as of the date first above written.

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF NEW BRUNSWICK AS REPRESENTED BY THE PREMIER

Per: ______________________

Name: David Alward

Title: Premier

WITNESS:

____

Name: RALPH MCBRIDE

FOR THE UNION, BY THE PRESIDENT OF CUPE LOCAL 1252

Per: ______________________

Name: Norma Robinson

Title: President CUPE Local 1252

Appendix - Parameters Used under Risk Management Framework

The risk management framework tests conducted on the CUPE Shared Risk Plan were carried out using the following assumptions and parameters. Any change to these parameters will change the results of the tests and the required contribution rates to meet the funding goals required by the enabling legislation. The adopted Funding Policy shall adhere to these parameters unless changes are agreed to by the Union and Employer.

Discount rate:	4.5% per annum with future discount rates to be determined consistent the objectives of the plan
Mortality basis:	UP-94 Generational Table using a projection scale reflecting the most recent life expectancy improvement data and adjusted to reflect experience for the CUPE Hospitals Plan (115% of mortality rates for males and 105% for females). In the future, this assumption will be changed as may be required to reflect latest available information on life expectancy.
Other assumptions:	Current valuation assumptions except that retirement pattern assumptions were adjusted to allow for the anticipated effect of the retirement rules considered in the costing.
Retirement rules:	Unreduced at age 65 with a reduction of 5% per year early only applicable to service on or after the Conversion Date.
Funding level:	Measured using the 15 year open group method. Valuation assets equal to the market value of assets plus the present value of excess contributions over the normal cost for base and ancillary benefits other than potential future COLA divided by the total liabilities, both at the relevant valuation date.
Initial contributions:	Sufficient to achieve a minimum target funding level of 112% of liabilities using a 15 year open group method at the Conversion Date. The level so determined for the retirement rules above is at least 9.0% of salary for Employees and 10.1% of salary for the Employer. A different retirement rule or change to other parameters would lead to a different contribution level.
Contribution increases:	Up to 1% of payroll in total, shared equally (i.e., up to 0.5% each for members and employer) and triggered when the funding level falls below 95% for two consecutive years. Such increases are to remain in place until the funding level reaches 110%.
Contribution decreases:	Up to 2% of payroll in total, shared equally (i.e., up to 1.0% each for members and employer) and triggered when the funding level exceeds 150%. Such decreases are to remain in place until the funding level falls below 150%.

COLA

Annual allocation of funding excess for purposes granting of COLA was set at 1% for each 6% of excess funds above a funding level of 105% up to a funding level of 140% or such COLA as the Board of Trustees chose provided the ratio is $1 dollar available for COLA for every $6 dollars of excess funds as described above. funding excesses above 140% would first be used to recapture any COLA not previously granted up to the *Income Tax Act* limits in a manner that, to the extent practical, gives priority to recapturing missed COLA in the order in which it was missed. COLA applies to all members in equal proportion regardless of status at the date COLA is granted.

Ancillary benefits:

Improvements only possible if all COLA is fully recaptured and there is still a funding excess above 140%.

Target Asset Allocation:

Initially, 56% Fixed Income, 29% Equity, 7.5% Real Estate and 7.5% Infrastructure.

Deficit recovery plan:

Based on the following steps applied in succession until funding goals are met:

(1) Increase contributions as allowed under the Funding Policy;

(2) Change retirement rules for post-conversion service for non-vested members to a full actuarial reduction for retirement before age 65;

(3) Change retirement rules for pre-conversion service for non-vested members to a full actuarial reduction for retirement before age 60;

(4) Reduce base benefit accrual rate for future service after the date of implementation of the deficit recovery plan by not more than 5%;

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

If steps (2) though ~~(6)~~ (5) are implemented, then priority must be given to reversing these changes in reverse order of application before any future COLA is granted.