Question and Answer Session Summary

Included in this document are answers to the questions received prior and during the 2018 NBPSPP Annual General Meeting, held in Bathurst, NB on September 6, 2018.

This information has been prepared on behalf of the Board of Trustees of the New Brunswick Public Service Pension Plan by its appointed administration and investment manager, Vestcor Inc (Vestcor).

Questions and answers have been sorted into the following five categories: plan provisions, governance, risk management, cost of living adjustment and service providers. If you would like to submit additional questions to the Board of Trustees of the NBPSPP, you can do so through the following methods:

- In writing at NBPSPP Board of Trustees, c/o Vestcor, PO Box 6000, Fredericton, NB E3B 5H1;
- By telephone at 1 800 561 4012 (toll free) or at 506 453 2296 (Fredericton); or
- By email at info@vestcor.org.

For more information relating to the materials presented at the 2018 Annual General Meeting, refer to the presentations provided by the service providers and the video recording of the meeting, both available at Vestcor.org/nbpspp, under the Plan Governance section.

Plan Provisions

Q: **Nice to see the Shared Pension Plan doing well, this being contrary to what was delivered to employees back in 2013-2014 when it was decided to move retirement age to 65 instead of 60 with a 5% penalty per year before age 65. Please explain why this 5% cannot be reduced or eliminated with new numbers of the Plan Valuation. Why would the Retirement age of 65 not be reduced or revised?**

A: Removing or altering the 5% reduction that is in place for those choosing to retire prior to the age of 65 cannot be changed by the Trustees as per the Plan's Funding Policy. A change of this type would have to be made by the governing parties (the province and unions) and such a change would have significant cost implications to the Plan.

The Funding Policy is a governing document which provides guidance to the Board of Trustees and outlines what the Board can and cannot do based on the funded status of the Plan. The Funding Policy specifically states that the Board of Trustees cannot make any changes to the reduction. That said, the Funding Policy also specifies that if the Plan's 15-year Open Group Funded Ratio were to exceed 140%, that the Board should consider a reduction in contributions and building a reserve for future indexing, and other such items as they are listed in the Policy. If the Plan were to remain in a solid financial position after these items were considered, the Board could then recommend changes to the Funding Policy to the Plan's governing parties, including reviewing the 5% reduction. A copy of the Funding Policy, and other Governing Documents, are available at vestcor.org/nbpspp, under the Plan Governance section.

Q: **When we retire, why is it that we cannot just take out our pre-shared-risk portion of our pension and leave our shared risk portion alone until we decide to take it (i.e. at the age of 65)? You must figure out both amounts anyways, so it doesn't make any sense at all why we can't. I know several organizations, City of Fredericton included, that they can split their two amounts and take them at two separate times. I think this is totally unfair to employees - shared risk was forced on us and now you are forcing us to be heavily penalized should we wish to retire before the age of 65.**

A: This reduction was put in place during the design of your specific plan to protect the plan's funds rather than to be a penalty. With that in mind, amending the Plan to allow members to take their pre-conversion pension as early as 60, and their post-conversion pension as of 65 is cost neutral to the Plan, with one significant exception: administrative costs. It is significantly costlier to administer a pension plan that is set up this way. We also understand that research has shown that for many Plans who have offered this option, the number of members who have selected it has been very low, leaving the cost to potentially outweigh the value to its members.

This being said, this issue was recently brought to the Board of Trustees' attention and is now on the Board's list of emergent issues to be considered. Research is in progress; an update will be provided to Plan members as soon as it is available.

Q: **When a member of the pension plan retires, is converting their pension into an annuity managed by Vestcor the only option available? Can we take the money out of the plan, transfer it into a locked-in retirement account and manage it ourselves? Or can we take the money out of the plan, convert it into an annuity manage by an insurance company or by a bank?**

A: A vested member over the age of 55 can choose between an immediate pension (reduced if commencement is prior to age 65) or a deferred pension. Funds cannot be transferred out of the NBPSPP after the age of 55.

Q: **Due to the fact the present pension plan is like a private pension plan in composition with no guarantees of monthly retirement amounts, why hasn't the Board eliminated the claw back at age 65 or presented to the members a proper costing for this necessary change on a go forward basis?**

A: The NBPSPP pension entitlement is not clawed back at age 65. The NBPSPP provides a temporary bridge benefit (also known as integration) which is intended to supplement your income until age 65, when CPP becomes available. The bridge benefit is paid in addition to your lifetime pension prior to age 65.

For more information on how the NBPSPP and CPP are integrated, refer to the article on page 1 of the Spring 2018 NBPSPP newsletter, available at vestcor.org/nbpspp in the Communications section.

Q: **With the provincial debt now at $14 billion and growing and a N.B. population of approximately 750,000 to pay this debt, it is financially extremely challenging to pay our growing debt. I would like to know if our pension plan is protected? What happens to our pension plan if our province ever goes bankrupt, faced with an end of financial support or even a management taken over by lenders?**

A: The assets of the Plan, located in the Plan's Fund, belong to Plan Members, not the Province of New Brunswick. The Province's only obligation is to contribute the amounts that are contained and required in the Plan Text. Once the Province makes those deposits, which are made monthly, the monies are held in trust by the Board of Trustees of the NBPSPP solely for the benefit of Plan Members. In the unlikely event of any sort of financial restructuring of the Province's debt, the assets of the Plan and monies put aside for plan members are unavailable to the Province or it's creditors. They remain the property of Plan Members.

Q: **On page 17 of the 2017 Annual Report, it is stated that "investment returns were greater than valuation discount rate". Please explain what this is.**

A: "The discount rate is the assumed long-term investment rate of return (net of expenses and margins for security) that the actuary expects the Pension Fund can conservatively earn over the long-term given the plan's current investment policy."
Investment markets however perform in cycles and for 2017 the investment returns for the plan surpassed the discount rate. This higher return in 2017 is expected to help offset future weaker market return periods where the annual investment return may be below the long-term discount rate.

Q: **How are pension surpluses being handled post 2014 versus pre-2014? Did anything change in the CRA rules regarding surpluses? Secondly, what happened to the surpluses prior to 2014, going back to the 1970s? Thirdly, has the use of those surpluses from the 1970s to 2014 negatively impacted the DB plan for the PSSA (*now the NBPSPP*)?**

A: Any surpluses in the Plan post conversion (2014) stay in the Plan and belong to members. These surpluses allow to provide indexing to members, and if they reach a certain level, higher than in the past, contributions for employers (Province) and members can be decreased, as per the Plan's Funding Policy. No one outside of the Plan has access to these funds as they are assets of the Plan.

Prior to conversion (pre-2014), if there were surpluses to the Plan, they would potentially stay there, or there may have been a reduction in contributions by the Province to decrease the surplus.

GOVERNANCE

Q: **Under the costs related to the operation of the board in *2017 (available in the 2017 Annual Report)*, there is an increase of more than 100%, compared to 2016. I would like to see an explanation of the increase of almost 100% on per diems.**

A: In 2016, only one of the Board of Trustees qualified for per diems. In 2017, the Board of Trustees was fortunate to add new Trustees to the Board, and now four are eligible to claim per diems. The increase in Trustees that qualify for per diem's accounts for this increase.

Q: **On the first page of Appendix D *(of the 2017 Annual Report)* it is stated that "The Board maintains systems of internal control and supporting procedures to provide reasonable assurance that accurate financial information is available, that assets are protected, and that resources are managed efficiently". What are these "systems of internal control"?**

A: The NBPSPP's Declaration of Trust document sets out the governance framework to be used by the Board of Trustees. This includes the Board's ability to form an Audit Committee, Governance Committee and any other committees that may be required to fulfill its responsibilities. The Declaration of Trust, as well as all the governing documents for the NBPSPP are found on its website at vestcor.org/nbpspp, under the Plan Governance section.

The Plan operates under various policies that are reviewed annually by the Board of Trustees. These policies include the Funding Policy, which sets out actions that the Board can take to deal with plan surplus or deficits, and the Statement of Investment Policies which sets out the expectations for the investment of the pension fund assets.

The Board has executed an administration agreement and an investment management agreement with Vestcor. Under these agreements, Vestcor is responsible for the daily operations of the NBPSPP including plan member enrollment and maintenance, collection of pension contributions from employers, payment of pension benefits, and investment of the pension fund assets.

The Board has also executed an agreement with Morneau Shepell to conduct an independent actuarial valuation of the pension obligation annually. The Board reviews these agreements periodically in advance of renewal to ensure services and service level expectations are clear.

The Audit Committee has engaged an independent external auditor, KPMG, to express an opinion on its financial statements, which are also available on the NBPSPP's website at vestcor.org/nbpspp under the Financial Results section, as well as in the Plan's Annual Report. KPMG is also the independent external auditor for Vestcor and its investment entities. KPMG reports on its audit findings to the Audit Committee and Board annually before the Board approves the financial statements for publication.

Vestcor also maintains its own system of internal controls which KPMG consider each year in conducting their audit of the NBPSPP's financial statements. Vestcor reports on its internal controls annually to the Audit Committee. These include controls over the investment activities of the pension fund as well as operational and information technology controls over its pension administration systems.

Q: **What checks and balances in place to make sure no toxic investment is done with the pension fund?**

A: The *Pension and Benefits Act* requires that your pension plan have a Statement of Investment Policies which specifies the target investment allocations and allowable ranges for each investment class. Related compliance reports are provided to the Trustees by Vestcor. The document is reviewed annually by the Trustees and reported to the Superintendent of Pensions at the Financial and Consumer Services Commission. A copy of the Statement of Investment Policies is available at vestcor.org/nbpspp, under the Plan Governance, Governing Documents section.

Q: **Where are legal fees being paid from for the Board's legal defense?**

A: The legal fees that are being paid to protect your fund are related to the lawyer that has been engaged by the Board of Trustees for this protection. The Board made the decision to engage the services of a lawyer who is an expert in the pension area to ensure the interests of the Plan are protected and most importantly to protect the Fund from the potentially larger costs that the lawsuits are looking to gain from the Fund.

These legal costs are reflected on page 25 of the 2017 Annual Report.

RISK MANAGEMENT

Q: **What is being done to reduce the risk in the event of a market downswing?**

Q: **Is our fund protected if we were to face a financial crisis?**

A: Vestcor assists clients in constructing Shared Risk Pension portfolios that are designed to achieve the long-term returns required by their Plan while taking on a minimum of investment risk. They do so by using strategies that have significantly lower expected volatility than typical investment approaches, with potentially lower exposure to global equity markets. Consequently, during certain years when equity markets rise significantly, your Plan may produce slightly lower returns than other less risk constrained pension funds in other jurisdictions. Conversely, your lower risk portfolios would be expected to be more likely to outperform the other riskier pension funds during more volatile market periods, such as in the event of a market downswing.

Q: **If possible, can you come up with different scenarios of the financial market and how it affects the shared risk pension? One of the scenarios could be 2008 financial market crash. If these scenarios can be posted on your website, it might help present and future retirees get an idea of future pension reductions, when they happen.**

A: The annual risk management tests, reported by the Plan Actuary, provides a probability estimate of the Plan's ability to pay base benefits (Risk Management Test 1) and annual inflation indexing (Risk Management Test 2) over a future 20-year period. The Actuary has also provided a number of potential future statistical outcomes with respect to the funding ratio in their presentation at the September 2018 AGM.

For more information, refer to the Plan Actuary Presentation, delivered by Yves Plourde, Vice-President, Morneau Shepell available at vestcor.org/nbpspp, under the Plan Governance, Annual General Meetings section. Also available within this section is a recording of Mr. Plourde's presentation, and copies of the Actuarial Valuation Reports prepared by Morneau Shepell for the Plan.

Q: **If the investment portfolio realized a negative return of 15% in 2018 would it be likely that it would still meet the solvency benchmarks that have been set for the Plan?**

A: To properly provide an answer to this question, we would need to have estimates for a number of other variables. Please refer to the answer to the above question with respect to funding impacts.

COST OF LIVING ADJUSTMENT

Q: **I would like clarification on what CPI consists of under the shared risk pension plan. There are various definitions of CPI according to the Bank of Canada. In fact, they list seven different definitions with some excluding the cost of food and energy and other commodities. I would like clarification as to what definition is used to generate the annual CPI.**

A: As per Section V of the Plan's Funding Policy, "CPI" means the Consumer Price Index as defined in subsection 8500(1) of the Income Tax Regulations (Canada). The CPI figures are drawn from the Bank of Canada and can be found at www.bankofcanada.ca/rates/price-indexes/cpi/.

Q: **Stats Canada Consumer Price index (year over year) for June 2018 is 2.5 percent - a full adjustment, not 1.88 which interestingly corresponds to 75%. The Pension Coalition is very concerned with this misleading statement for all 38,000 members of the plan and will seek clarification and address this issue.**

A: The January 1, 2019 cost of living adjustment (COLA) was calculated in accordance with the Plan's Funding Policy noted above by **comparing the average Consumer Price Index (CPI)* for the period of July 2017 to June 2018 with the average CPI for the period of July 2016 to June 2017**, as follows:

Month Year	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	Avg.
CPI	130.4	130.5	130.8	130.9	131.3	130.8	131.7	132.5	132.9	133.3	133.4	133.6	**131.84**

Month Year	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	Avg.
CPI	128.9	128.7	128.8	129.1	128.6	128.4	129.5	129.7	129.9	130.47	130.5	130.4	**129.41**

Here's how the increase is calculated:

$$\frac{\underset{\text{(average CPI for 12-months ending June 30, 2018)}}{131.84} \quad - \quad \underset{\text{(average CPI for 12-months ending June 30, 2017)}}{129.41}}{\underset{\text{(average CPI for 12-months ending June 30, 2017)}}{129.41}} = \mathbf{1.88\%}$$

*CPI figures are drawn from the Bank of Canada. They can be found at www.bankofcanada.ca/rates/price-indexes/cpi/.

Q: **Why did pensioners not get a full COLA in 2017 and 2018? The CPI was 1.9%. Increases were 1.45%**

A: NBPSPP members did receive a full COLA in 2017 and 2018. A sample of the calculation is included for the most recent COLA. See above.

Q: **Why did pensioners not get a full cost of living pension increase in 2017 & 2018? The consumer price index for these years was about 1.9%. Increases were about 1.45%**

A: See above.

Q: **Is CPI calculated any differently now under shared risk than it was at any time prior to conversion?**

A: No. The methodology used for calculating the NBPSPP COLA is the same that was used under the former Public Service Superannuation Act (PSSA) pension plan. It is also consistent with how other pension plans, including the Canada Pension Plan, calculate COLA.

NBPSPP SERVICE PROVIDER-RELATED QUESTIONS

Administration and Investment Manager: Vestcor

Q: **What is the total cost for the management and administration of the Fund (including the salary of those administering the pension plan) as a percentage of the equity or gross capital of the fund?**

A: Administration costs for the NBPSPP, consisting of all pension administration services and investment management services provided by Vestcor, were $13,925,000 for the year ended December 31, 2017. This represents 0.193% of the pension fund assets at that date. This information is available in the Plan's 2017 Annual Report at vestcor.org/nbpspp, under Plan Governance.

Q: **Would it be appropriate to partner with other larger pensions to lower costs?**

A: This is an important component of the Vestcor operating model where common economies of scale efficiencies can be shared between other similar clients. This is also an important item for the Board of Trustees of the NBPSPP, who have identified this as a strategic goal for the Plan moving forward. An increase (or combination) in members could lead to a decrease in administrative costs per member.

Q: **You compare the pension administration cost with private sector providers, would it be more appropriate to compare this to other provincial service providers?**

A: The Vestcor Inc. Board of Directors actively conducts this type of analysis as part of their benchmarking activities as noted in Management Discussion and Analysis section of their Annual Report. Visit vestcor.org/annualreports for additional information.

Q: **How do the performance "benchmarks" compare to other managed pension funds in Canada?**

A: Vestcor follows industry best practices and guidelines with respect to investment performance benchmarking, also ensuring they are aligned with clients' funding goals and objectives. Vestcor's not-for-profit business model results in client investment expenses (including incentive compensation) being approximately one third of the cost of alternative managers in the for-profit investment management industry.

Q: **How does the target for investment benchmark returns get set so low? The actual returns are usually, at a minimum, of about 5%?**

A: Investment benchmarks are standards that are used to measure the performance of active investment management performance. These standards are typically consistent throughout the investment and pension fund industry and are set through a consultation between our independent Vestcor Board of Directors, client Trustees, and from time-to-time the input of external industry advisors.

Information with respect to Vestcor's investment strategy benchmarks can be found in our Vestcor Investment Entity Profile document available at vestcor.org/investments (see "Investment Entity Profiles" section) or through the Plan's Statement of Investment Policies available at vestcor.org/nbpspp, under the Plan Governance, Governing Documents section.

Actual realized benchmark returns are based on the general market outcomes over time for a number of specific asset classes that are outside of management's control and subject to an annual external audit process.

Q: **Why is the bar set so low for bonus' on investments, most institutes use a much higher number than 3%? Would be nice to get an explanation of this. The CBC article on this was most interesting.**

A: Vestcor's compensation program, which includes performance-based incentives, follows industry best practices and guidelines with respect to investment performance benchmarking and related compensation matters. This ensures that Vestcor continues to provide low cost investment management services that meet the specific goals of their clients. The CBC article referenced focused only on one area of Vestcor's investment activities and was materially inaccurate. Vestcor's overall 2017 investment performance was 8.03%, exceeding long-term client objectives. For more information on Vestcor's 2017 returns, view Vestcor's annual report available at vestcor.org/annualreports. For Vestcor's response to CBC's benchmark criticism, please refer to the following article on our website: Vestcor Addresses Absolute Return Benchmarking Criticism.

Q: **Why is the percentage of profit set so low that bonuses are three times salaries?**

A: Vestcor's compensation program, including the performance-based incentives, follows industry best practices and guidelines with respect to investment performance benchmarking and related compensation matters. The benchmarks are closely aligned with Vestcor's clients' success in meeting their funding goals and objectives, while always following industry standards. It is also important to note that in accordance, the percentage of an individual's compensation that is performance-based is proportional to the level of that employee's responsibility in the organization. For more information on the compensation program, see the information provided by the Human Resources and Compensation Committee of Vestcor's Board of Directors at vestcor.org/governance.

Q: **How are performance bonuses determined?**

A: Vestcor's compensation program is led by the Vestcor Inc. Board of Directors with the assistance of its Human Resources and Compensation Committee. The compensation program is designed to attract and retain a team of highly skilled and qualified, New Brunswick-based, investment and administration professionals who have the skills and experience required to successfully manage more than $17 billion in investment capital directly across global financial markets.

To ensure that the compensation program, including performance-based incentives, are fair, the program has been assessed by Deloitte LLP and received a positive review, as detailed in the document "Compensation Practice Assessment Against Financial Stability Board Principles", which is available at vestcor.org/governance, under Board Committees, Human Resources & Compensation Committee section, along with other related documents.

Q: **What are the criteria in establishing a "bonus performance" for salaried employees?**

Q: **Who are eligible to receive a "performance bonus"?**

Q: **Is there annual cap for the amount of a performance bonus to be granted?**

A: Vestcor operates on the general principle that compensation should consist of a base salary component and a performance-based incentive component, as is typical for the industry. Investment performance is generally measured over longer periods of time. This longer-term focus is consistent with Vestcor's typical client mandate to achieve a precise long-term investment rate of return while minimizing risk. In addition, the percentage of compensation that is performance-based is proportional to the level of employee responsibility.

All full-time investment staff have a portion of their annual compensation tied to long-term investment performance. As mentioned above, the percentage of compensation that is performance-based is proportional to the level of responsibility in the organization.

Annual performance incentives are capped at twice the performance target level in order to discourage excessive risk taking.

Q: **I am very concerned about the reported bonuses received by the individuals who manage our pension fund. This appears to be unjust. I would like to know what the checks and balances are in managing our pension money?**

A: See answers above.