

December 13, 2023

New Brunswick Teachers' Pension Plan Board of Trustees
c/o Mr. Larry Jamieson, Chair
140 Carleton Street, Suite 400
Fredericton, NB E3B 3T4

Dear Mr. Jamieson:

**Re: New Brunswick Teachers' Pension Plan
Cost Certificate as at August 31, 2023**

As required under subsection 14(2) of the *Teachers' Pension Plan Act, SNB 2014* ("TPPA"), we have prepared below a cost certificate as at August 31, 2023 for the New Brunswick Teachers' Pension Plan ("NBTPP" or "Plan").

The most recent actuarial valuation of the Plan was carried out as at August 31, 2022. The detailed results of the actuarial valuation can be found in our *Actuarial Valuation Report as at August 31, 2022* prepared in May 2023 and filed with the Superintendent of Pensions. The next actuarial valuation of the Plan is to be conducted no later than August 31, 2025, being the Plan year-end date falling no later than three years after the most recent valuation date. In the meantime, the legislation requires that cost certificates be prepared annually at each Plan year-end.

This cost certificate is the first following the August 31, 2022 funding valuation of the Plan and is conducted as at August 31, 2023 for the NBTPP Board of Trustees ("Trustees"). It is suitable for filing with the Superintendent of Pensions in accordance with the requirements of subsection 14(2) of the TPPA.

The cost certificate outlines:

- The extrapolated financial position of the Plan as at August 31, 2023 on the funding basis as required under Section 17 of the TPPA;
- The estimated normal cost for benefits to accrue over the Plan year following August 31, 2023, and estimated Teachers and Employer contributions requirements for the same period in accordance with the terms of the Plan; and
- A review of any action or actions that may be required by the Board of Trustees under the terms of the Funding Policy for the NBTPP further to the results found in the cost certificate.

Actuarial Methods and Assumptions

The actuarial methods underlying the extrapolation of the funding liability to August 31, 2023 are the same as the ones used in the funding valuation of the Plan as at August 31, 2022. No changes to the methods are suggested at this time.

All actuarial assumptions remain unchanged from those used in the funding valuation of the Plan as at August 31, 2022.

The methods and assumptions are summarized in Appendix 1 to this cost certificate and are discussed in detail in our *Actuarial Valuation Report as at August 31, 2022*.

The membership data and Plan terms are also summarized in our *Actuarial Valuation Report as at August 31, 2022*, and are not repeated in this cost certificate.

Approach

The extrapolation uses the funding liability and the total normal cost found in the *Actuarial Valuation Report as at August 31, 2022* dated May 2023 as a starting point. The funding liability as at August 31, 2022 is \$5,729.8M. The total normal cost as a percent of payroll for the period from September 1, 2022 to August 31, 2023 is 15.41% of payroll.

Actual Teachers and Employer contributions for the period from September 1, 2022 to August 31, 2023 are used to determine the covered payroll for the period, and in turn to estimate the cost of accruing benefits for the period using the normal cost percentages found above. Actual benefit payments for the period are also used to reduce the actuarial liability as benefits are paid out.

Assets

The actual contributions and benefit payments for the period September 1, 2022 to August 31, 2023 were provided to us by Vestcor in unaudited financial statements for the Plan for the period in question.

The reconciliation of assets for the period from September 1, 2022 to August 31, 2023, as provided by Vestcor, is as follows:

Table 1 – Reconciliation of Assets

	September 1, 2022 to August 31, 2023
	\$M
Market value of assets at September 1, 2022	6,441.4
Receipts	
Teachers' contributions	75.0
Employer contributions	78.0
Investment income plus realized and unrealized capital appreciation and depreciation	373.5
Total receipts	526.5
Disbursements	
Pensions paid and refunds	(334.5)
Fees and expenses	(11.7)
Total disbursements	(346.2)
Market value of assets as at August 31, 2023	6,621.7
Investment return on market value of assets (net of fees and expenses charged to the fund)	5.7%

Note: The market value of assets as at August 31, 2023 shown above is taken from unaudited financial statements prepared by Vestcor and may not include all amounts receivable and payable. The net impact of such outstanding receivables and payables is deemed not to be material for the purposes of this cost certificate based on prior years' level of such amounts.

Extrapolated Funding Liability

The result of the extrapolation of the funding liability to August 31, 2023 using the approach described above, and Teachers and Employer contributions and benefit payments found in the asset reconciliation above, is presented in Table 2 below.

Table 2 – Extrapolated Funding Liability as at August 31, 2023

	\$M
Funding liability as at August 31, 2022	5,729.8
Normal cost for period from September 1, 2022 to August 31, 2023 (15.41% of payroll)	111.3
Benefit payments for period from September 1, 2022 to August 31, 2023	(334.5)
Interest on above components	351.1
Extrapolated funding liability as at August 31, 2023	5,857.7

Extrapolated Funding Valuation Funded Status

The extrapolated funding valuation funded status is determined by comparing the market value of the assets to the extrapolated funding liability as at August 31, 2023. The resulting extrapolated funded status as at August 31, 2023, along with the funded status at August 31, 2022, is found in Table 3 below.

Table 3 – Extrapolated Funding Valuation Funded Status

	August 31, 2023	August 31, 2022
	\$M	\$M
Market value of assets	6,621.7	6,441.4
Extrapolated funding liability	5,857.7	5,729.8
Extrapolated funding valuation excess (unfunded liability)	764.0	711.6
Extrapolated Termination Value Funded Ratio (subsection 17(7) of TPPA) or Extrapolated Closed Group Funded Ratio (section 1 of TPPA)	113.0%	112.4%

Extrapolated Normal Cost and Contributions

We estimate the normal cost and contributions to the Plan for the year following August 31, 2023 to be as follows, based on the payroll figure established for the above extrapolation and projected for the period from September 1, 2023 to August 31, 2024:

Table 4 – Extrapolated Normal Cost and Contributions

	Extrapolation for Year following August 31, 2023	
	\$M ¹	% of payroll ²
A. Funding valuation normal cost	114.2	15.41
B. Contributions:		
Teachers	76.9	10.38
Employer initial contributions	71.4	9.63
Employer temporary schedule 1 (for 5 years after 1-7-2014)	-	-
Employer temporary schedule 2 (for 10 years after 1-7-2014) ³	4.6	0.75
Employer temporary schedule 3 (for 15 years after 1-7-2014)	5.6	0.75
Total	158.5	21.51
C. Excess contributions (B. – A.)	44.3	6.10
Estimated annual payroll for year following August 31, 2023	741.2	

¹ Contribution amounts are calculated using the estimated annual payroll for the year following August 31, 2023, adjusted for members working on less than full-time basis. Total may not add up exactly due to rounding.

² Contribution rates shown here are the average rates for the Plan (actual Teachers contribution rates are 10.0% up to the YMPE and 11.7% above the YMPE and Employer contribution rates are 10.75% up to the YMPE and 12.45% above the YMPE)

³ The employer temporary schedule 2 ends on June 30, 2024 and is therefore payable only for the first 10 months of the Plan year.

Review of Funding Policy Actions

In accordance with the annual process followed by the Board of Trustees under the Funding Policy for the Plan, the Board must consider its options for action based on the funded status of the Plan (NBTPP Funding Policy, Section VII - Annual Review, Subsection B. Application of Funding Policy, Bullet 6).

Such actions would be found under either Section IV – Funding Deficit Recovery Plan or Section V – Funding Excess Utilization Plan, depending on the level of the Closed Group Funded Ratio.

Section IV – Funding Deficit Recovery Plan of the Funding Policy requires the Board of Trustees to implement a Funding Deficit Recovery Plan when:

- the Closed Group Funded Ratio of the Plan falls below 100%; and
- any funding correction would exceed 1% of payroll when taking into account total contributions made in excess of normal cost over the next 15 years.

Given that the Closed Group Funded Ratio is in excess of 100%, the first condition above is not met, and therefore the Board of Trustees does not have to implement a Funding Deficit Recovery Plan on the basis of this cost certificate.

Section V – Funding Excess Utilization Plan of the Funding Policy describes the actions the Board of Trustees must take or consider when the Closed Group Funded Ratio exceeds 100%.

- A. **Funding Correction Reversals:** Certain funding corrections applied in the past can be reversed. At this time, no past funding corrections have ever been applied.

- B. **Contingency Reserve:** The next step in the Funding Excess Utilization Plan calls for the buildup of a contingency reserve of up to 10% of the funding liability of the Plan. We understand that such contingency reserve is not meant to be held separate and apart from the Plan, but rather be interpreted as a “buffer” to be held within the Plan. In that sense, a contingency reserve of 10% of the funding liability of the Plan is reached when the Closed Group Funded Ratio equals 110%. Based on the information reviewed above and the extrapolated Closed Group Funded Ratio of 113.0% calculated as at August 31, 2023 which exceeds 110%, the Board of Trustees is now in a position to implement further actions provided under Section V – Funding Excess Utilization Plan of the Funding Policy.

- C. **Other Actions 1) Benefit Security and Contribution Stability Buffer:** The next step in the Funding Excess Utilization Plan is to establish an additional benefit security and contribution stability buffer of 5% of the funding liabilities. We understand that such benefit security and contribution stability buffer is not meant to be held separate and apart from the Plan, but rather be interpreted as a buffer to be held within the Plan, similar to the 10% contingency reserve. In that sense, a benefit security and contribution stability buffer of 5% of the funding liability of the Plan would be reached when the Closed Group Funded Ratio equals 115%.

Based on the information reviewed above and the extrapolated Closed Group Funded Ratio of 113.0% calculated as at August 31, 2023, it is determined that the Funding Policy does not provide for additional action to be taken by the Board of Trustees under the Funding Excess Utilization Plan until such time as the Closed Group Funded Ratio exceeds 115%.

Update of Termination Value Funded Ratio

The Termination Value Funded Ratio is used in calculating the value of lump sum payments payable from the Plan to Teachers who terminate employment before being eligible for an immediate pension and elect to receive a transfer outside the Plan.

The legislation does not require that the Termination Value Funded Ratio established at the last filed valuation of the Plan be changed until such time as a complete actuarial valuation of the Plan is conducted (unless it is believed that it has changed by more than 10%). It also does not prevent the Board of Trustees from updating the ratio at an earlier date.

In the past, the Board of Trustees adopted the extrapolated Termination Value Funded Ratio as at the date of each cost certificate for purposes of calculating lump sum payments from the Plan for Teachers with a termination date on or after the date each cost certificate was approved for filing by the Board of Trustees.

In order to follow the same practice, the Board of Trustees may wish to adopt the extrapolated Termination Value Funded Ratio as at August 31, 2023 of 113.0% for purposes of calculating lump sum payments from the Plan for Teachers with a termination date on or after the date this cost certificate is approved for filing.

This ensures that the most up-to-date information is taken into account in calculating such lump sum payments. Updating the ratio and the assumptions used in the calculation annually is also consistent with the process followed by other public service plans in the Province that use a similar approach to calculating lump sum transfers.

Opinion

In our opinion, for the purposes of the extrapolation of the funding valuation found in this cost certificate:

- The membership data on which the extrapolation is based are sufficient and reliable for the purposes of the extrapolation.
- The assumptions are appropriate for the purposes of the extrapolation.
- The methods employed in the extrapolation are appropriate for the purposes of the extrapolation.

This funding valuation cost certificate has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

The assumptions used under the funding valuation extrapolation were reasonable and consistent with the objectives of the Plan at the time this cost certificate was prepared.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Yves Plourde'.

Yves Plourde, FSA, FCIA

A handwritten signature in black ink, appearing to read 'Randy Pelletier'.

Randy Pelletier, ASA, ACIA

Peer reviewed by Eric Ouellette, FSA, FCIA.

Appendix 1

Table A.1 – New Brunswick Teachers’ Pension Plan Funding Valuation Actuarial Assumptions

	August 31, 2023
Discount rate	6.25% per annum
Inflation	2.10% per annum
Indexing of active members accrued pensions	100% of inflation ¹
Indexing of retiree pensions and other inactive members accrued pension	75% of inflation ¹
Salary increase for year following valuation (for normal cost purposes only)	2.60% plus merit and promotion
YMPE increase for year following valuation (for normal cost purposes only)	2.60%
Mortality	<p style="text-align: right;">Regular Members: CPM2014 Public Sector generational mortality using improvement scale CPM-B, adjusted by 0.95 for males and 0.90 for females</p> <p style="text-align: right;">Disabled Members: CPM2014 Public Sector generational mortality using improvement scale CPM-B, adjusted by 1.50 for males and 1.50 for females</p>
Spousal age difference	Males 2 years older than females
Retirement ⁽³⁾	<p>If unreduced retirement age⁽²⁾ attained within 10 years of 1.1.2014:</p> <p style="text-align: right;">20% at 81 points 35% at 85 points 35% at 87 points 10% at 90 points</p> <p style="text-align: center;">but not later than attainment of 35 years of service or age 60</p> <p>If unreduced retirement age⁽²⁾ attained after 10 years of 1.1.2014:</p> <p style="text-align: right;">20% at 81 points 40% at 89 points 40% at 91 points</p> <p style="text-align: center;">but not later than attainment of 35 years of service or age 62</p>

				August 31, 2023
Disability	Age	Male	Female	
(Sample rates of disability)	25 – 29	0.01%	0.01%	
	30 – 34	0.03%	0.02%	
	35 – 39	0.06%	0.03%	
	40 – 44	0.08%	0.05%	
	45 – 49	0.11%	0.07%	
	50 – 54	0.17%	0.12%	
	55 – 59	0.25%	0.21%	
	60 and over	0.30%	0.30%	
Proportion of members with a spouse or common-law partner		Active males: 85%		
		Active females: 75%		
		Deferred and pensioners: Varies by age		

⁽¹⁾ Inflation is adjusted down by 0.10% per annum for purposes of indexing to take into account the impact of the 4.75% cap applied under the Plan for indexing purposes. The actuarial valuation as at August 31, 2022 include the actual indexing amount granted on January 1, 2023 of 4.75% for active members and 3.56% for retirees and other inactive members, and include indexing in accordance with the above assumptions for January 1, 2024 and after.

⁽²⁾ Unreduced retirement age determined in accordance with the provisions of the Plan applicable to service before July 1, 2014.

⁽³⁾ Members who have attained assumed retirement age are assumed to retire in one year from the valuation date.

Market Value of Assets by Asset Class

The market value of the assets as at August 31, 2023 is \$6,621.7M. This amount was taken from unaudited financial statements prepared by Vestcor as at August 31, 2023. A distribution of the market value of assets by the major asset classes, as provided by Vestcor, is shown below:

Table A.2 – Market Value of Assets by Asset Class

Asset Class	As at August 31, 2023
\$M	
Fixed income	2,197.1
Equities	2,286.7
Inflation linked assets	1,315.3
Alternative investments	813.5
Other investments and amounts payable and receivable	9.1
Total	6,621.7