CBE Pension Plan Annual Information Meeting 2023
Question and Answer Session Summary

Included is a summary of the questions submitted by members around the inaugural CBE Pension Plan Annual Information Meeting held on November 29, 2023. If you would like to submit additional questions to the CBE Pension Plan Board of Trustees, you can do so:

- In writing at CBE Pension Plan 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).
- By email at info@cbenb.ca.

A recording of the meeting is available at cbenb.ca/2023aim.

It's my first time attending a meeting regarding my pension. I am nearing retirement and just want to learn about how it all works.

What is the amount of loss if you retire before 65. Is there a great percentage of loss? I will have 20 years of the new pension at 65. What does that mean to me?

Pension estimates are specific to each individual. For information about the various options that are available for your retirement, contact Vestcor's Member Services team. They'll be happy to provide you with details that are specific to your situation.

They're available Monday to Friday, from 8:15 am to 4:30 pm at 1 800 561 4012 (toll free) or 506 453 2296 (Fredericton). They can also be reached at info@vestcor.org, or in person at 140 Carleton Street, Suite 400 in Fredericton, NB.

Regarding the loss mentioned if you retire prior to age 65, please refer to the next page for more detail.

Could you run through a sample of how to use the calculators on the website?

There is a video that explains how to use the calculator, and provides an example of a calculation. The instructional video is available at vestcor.org/calculator. If you have any questions about the calculator, please contact Vestcor's Member Services team.

Could you speak to what is mentioned as a 5% penalty per year when retiring at 55 years old? I saw this noted, but also heard it was not a penalty, but if you retired at 55 and pull your pension, my understanding is that it would be reduced 50%.

What you're referring to is called the early retirement reduction. People sometimes refer to it as a penalty, but it is not a penalty.

The normal retirement age for the CBE Pension Plan is 65. If you choose to retire before 65, you will receive your pension for a longer period of time. In order for the value of that pension to be similar to a person who retires at 65, it needs to be reduced by 5% per year that you retire early. It ensures, from a pension plan perspective, that the total cost is about the same amount to pay the pension of someone who retires early vs. someone who retires at the normal age of 65.

The earliest a member of the CBE Pension Plan can begin drawing a pension from the Plan is age 55. If you retire at 55, 10 years before 65, the reduction is 10 years x 5% per year = 50% overall reduction.

The previous pension plan had a reduction of 3% per year, and since 2012 it became a 5% reduction. Can you explain for those of us who are younger in the workforce why this change was implemented in 2012 when the defined benefit contribution plan became a shared risk plan. A 2% additional reduction per year feels very significant.

When the conversion to a shared risk plan took place, the CBE was under significant funding stress. It was considerably underfunded and was going to be forced to cut benefits for its existing members. Instead of cutting benefits, the Board participated in a process to make the plan more affordable and sustainable for the long term.

As part of this exercise to ensure the Plan's long-term sustainability, compromises had to be made – and that included moving the age of retirement in line with the new longevity results. As people now live longer than when pension plans were initially designed, it was deemed appropriate by the parties involved at the time to extend the normal retirement age to 65. This was implemented as an incremental change, beginning in 2012.

During that same exercise, other changes were made. For example, the Board can now use portions of any surplus that is gained over time to improve the pension of its members – when the Plan is in a position to do so and it will not jeopardize its sustainability. This includes granting cost of living adjustments to all active members AND retirees without any caps. Cost of living adjustments can now potentially equal the actual rates of inflation, based on Canada's CPI, and are not capped at 4%, as they were under the previous plan.

A 5% reduction adjustment also ensures equity between those who may not be able to retire early versus those who can afford to retire early for various reasons. If you choose to retire before the normal retirement age of 65, you will receive your pension for a longer period of time. In order for the value of that pension to be similar to a person who retires at 65, it needs to be adjusted by about 5% per year of early retirement (before age 65).

So last year's cost of living was eaten up by the increase in Blue Cross premiums. We were left with approximately $20 extra per month. This is more of a comment. I realized that COLA may not be available annually depending on many factors. This is concerning to our household as we are more aware of our pension not being able to sustain our needs as we age and would like to remain in our home.

Please note, the health benefits provided to Plan members are unrelated to the operations of the CBE Pension Plan. They are separately administered by the Government of New Brunswick and the Board is not involved in any decisions around those benefits. While it is convenient for retirees to have the cost of the health benefits deducted from your pension that is simply a service provided to our Members by Vestcor. The Board of Trustees and Vestcor are not involved in any decisions made around the benefits program themselves.

In relation to cost of living adjustments: the CBE Pension Plan is the only shared risk plan that has been in a position to provide members with a full cost of living adjustment (COLA) since the Plan converted to a shared risk plan 10 years ago.

As explained by the Plan's Actuary during the meeting, the CBE has a funded ratio of over 130%. There is little doubt that the Plan could not provide cost of living adjustments for the foreseeable future. In fact, the Actuary calculated that over the next 20 years, the CBE Pension Plan will be able to provide 100% of inflation, or full COLA, annually assuming an inflation rate of about 2.1% per year.

If we continue to have inflation in the 5% to 6% range over many years, then obviously that will create challenges not only to the CBE Pension Plan, but to all economies in general. Central banks have been monitoring this and will be able to tackle the challenge of getting inflation back to a more normal level in the range of 1% to 3%. There has been evidence that inflation is being tamed over the last few months.

In a world where inflation is typically between 2% and 3%, this pension plan should not have any problem and continue to provide cost of living adjustments in the future.

Do we have retirees on our board?

Yes! Currently, three Trustees are retired. For more information about the Board of Trustees, access our biographies which are available on the Plan's website at cbenb.ca.

Why is Vestcor giving its employees excessive bonuses instead of reinvesting those funds?

There are a couple of points to consider when answering this question.

1. The CBE Pension Plan Board of Trustees regularly assesses the performance of Vestcor against our objectives. As the actuary pointed out in his latest Report, we are meeting (and exceeding) our long-term objective that the Plan be able to pay benefits 97.5% of the time, as it was designed to do, and we have been able to do it through the years. They are supporting us effectively in meeting our objectives.

2. The second point is that as a Board, we are pleased with Vestcor's long term investment performance. They continue to outperform our long-term investment policy benchmarks, and they do this while providing very cost-effective fees, as John Sinclair (President and CEO of Vestcor) pointed out in his presentation.
   If we, as a Board, decided to move away from Vestcor and have the funds managed by private sector companies, we would be paying significantly more in fees than what we are paying now. The fact that we pay less in fees means that more of the money that we earn yearly is allowed to go to benefits, such as cost of living adjustments for all Plan members, and not paying higher management fees to a private sector company.

In addition, Vestcor has a professional Board of Directors that governs their compensation program. Their Board ensures that the compensation Vestcor employees receive is in line with industry best practice standards. Vestcor also discloses a significant amount of detail in their annual report and on their website about their compensation.

About Vestcor
As mentioned in the presentation by John Sinclair, Vestcor's President and CEO, Vestcor manages 85% of $20 billion (assets under management) with its own investment staff on site in Fredericton, NB. That's a large amount of money for an investment manager based in this region, and even compared to investment managers across the country. Vestcor has a duty to make sure that they have experienced and competent investment professionals who have the expertise to manage these funds. To attract investment professionals, Vestcor needs to be competitive in the investment management industry in general. It is typical in the investment management industry that significant portions of employees' compensation is variable and is tied to performance metrics. The amount of variable compensation is greater with senior staff who have direct investment responsibilities, and it is based on long-term performance measured against various standard industry benchmarks.

In addition, as a not-for-profit organization, Vestcor provides their services at a lower cost (expense ratio) than private organizations in the industry – all while being able to continue to outperform the CBE's investment benchmarks.

Vestcor's independent Board of Directors and their HR committee, with the expertise of external consultants, spend a lot of time to make sure that Vestcor has a compensation program that is following best practices and that is competitive, allowing Vestcor to be able to continue to attract and retain skilled staff, without compromising their lower cost approach.

Why can Nova Scotia nurses retire at age 60 with full pension? Maybe the nurse would come back and at least work casual after retirement. It would be a win-win. Nursing is a physical and mentally exhausting job to work until age 65 full time. Thank you.

The reality is that every pension plan is designed a bit differently. Although some may seem to have advantages in certain areas, such as earlier normal retirement ages, they can also have disadvantages.

In Nova Scotia, they do provide an option to retire as early as the age of 55 if your age and your continuous service is equal to or exceeding 85.

So that means, for example, someone who has 30 years of service at age 55 could retire, as they meet the requirements of the rule of 85. It is a different way of calculating their pension.

In addition, plan members and employers of the Plan in Nova Scotia contribute more to the Plan annually to make up for the additional costs of having the *Rule of 85* option. They also have a cap on their cost of living adjustments to help fund that option, so their pension is not designed to keep up with higher inflation the way the CBE Pension Plan does.

When comparing plans, it is important to weigh the pros and cons of their different benefits before assuming one is better than another.

Will it be possible to manage our individual portfolios, including percentage contributed and how aggressive we wish our funds to be invested? Will it also be possible to have individual meetings for our portfolios and for changes we may wish to make?

In some pension plans, individuals are allowed to make their own investment choices and choose their own contribution rate. Those pension plans are more prevalent in the private sector. They're typically called defined contribution pension plans. In defined contribution pension plans, the employer pays contributions and you, as an employee, are responsible for the investment. You solely take on the risk of the investment, and then you get to determine a pension payout during your retirement based on the funds you have accumulated.

The CBE is a shared risk plan. Risk is shared amongst all members. Therefore, it is not possible for every member to have their own investment policies, or their own risk profile based on their own specific investment choices. In a plan like CBE, the purpose is to share the investment and longevity risk, which actually allows the pension plan to be more efficient. For example, as members approach retirement, they often don't want to take as much risk with their investments. Shared risk plans have consistent risk profiles – and can afford to keep that investment risk consistent regardless of its members retirement age. Members also benefit from a more consistent benefit payment over time irrespective of how long they live through their retirement.

Over time we expect that shared risk plans usually have better results overall than defined contribution plans for the same amount of contributions, simply because they are professionally, and cost effectively invested and can afford to take more consistent investment risk.
