AESRP

Financial Update – July 2019

The Board of Trustees for the Shared Risk Plan for Academic Employees of the University of New Brunswick (AESRP) is pleased to provide you with this annual update, as required under the New Brunswick Pension Benefits Act. In a shared risk plan, contributions, Cost of Living Adjustments (COLA) and benefits are linked to the financial position of the Plan. That's why the Plan is managed under strict risk management rules and it is very important for you to understand the factors that may influence your benefits over time.

Highlights

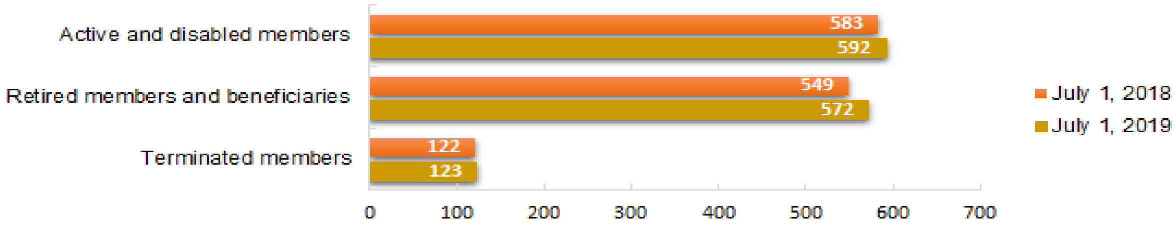
Here is an overview of the pension fund financial position as at July 1, 2019 and the evolution of the main financial indicators. Please read the following pages for more details and explanations.

	July 1, 2019	July 1, 2018	Comments
PENSION FUND ASSETS	$379,047,000	$348,805,000	
ANNUAL PERFORMANCE OF PENSION FUND INVESTMENTS	8.1%	6.6%	Benchmark return for the fund for 12-month period ending July 1, 2019 was 6.9%
CONTRIBUTIONS (preceding 12-month period)			
By Members	$9,215,000	$8,949,000	Contribution rate unchanged since July 2013
By the University of New Brunswick	$9,215,000	$8,949,000	
FUNDING STATUS			
Plan liability	$406,174,000	$388,289,000	
Open Group Funded Ratio	114.4%	110.5%	Must be greater than 105% for COLA to be granted
Termination Value Funded Ratio	93.3%	89.8%	
RISK ASSESSMENT			
Primary risk management test	96.4%	96.7%	Must be at least 95.0% (after January 1, 2018) for COLA to be granted
Secondary risk management test	82.6%	88.2%	Goal is to meet or exceed 75%

The financial position of the Plan improved from July 1, 2018 to July 1, 2019. The *Shared Risk Plans Regulation* under the *Pension Benefits Act* was modified effective January 1, 2018 to allow granting of COLA when the primary risk management test exceeds 95.0% (used to be 97.5%). This means that COLA could be granted effective January 1, 2020. The secondary risk management test continues to be met. COLA that was not granted in prior years may be granted partially or in full, depending on the funded status of the Plan. There has been no need to either reduce or increase contribution rates or otherwise alter benefits payable by the Plan as a result of the July 1, 2019 actuarial valuation. More information on the risk management tests and the granting of COLA are found later in this document.

Membership

From July 2018 to July 2019, the number of members changed as follows:



On July 1, 2019, the average age of active and disabled members was 50.8 and the average age of retired members and beneficiaries was 74.8.

Financial statements

Here is an overview of the changes in assets for the year ended June 30, 2019, compared to the preceding year.

	2019	2018
NET ASSETS, BEGINNING OF YEAR	$348,805,000	$325,216,000
INCREASE IN ASSETS	**$46,949,000**	**$39,583,000**
Investment income and change in market value	$28,519,000	$21,685,000
Total contributions (members and UNB)	$18,430,000	$17,898,000
DECREASE IN ASSETS	**($16,707,000)**	**($15,994,000)**
Pension benefits	($14,102,000)	($13,657,000)
Lump sum settlements	($1,272,000)	($822,000)
Investment and administrative expenses	($1,333,000)	($1,515,000)
NET ASSETS, END OF YEAR	**$379,047,000**	**$348,805,000**

Investments

INVESTMENT RETURN

The rate of return earned on the market value of assets, from July 1, 2018 to June 30, 2019 was 8.1%. This is higher than the benchmark return for the fund of 6.9% for the same period, and it also exceeds the long-term nominal rate of return of 5.13% per annum calculated by the actuary at July 1, 2019 for the Plan's asset mix.

ASSET ALLOCATION

Here is how the pension fund assets were invested as at June 30, 2019, compared to the target asset allocation set by the investment policy last revised and approved by the Board of Trustees in February 2019.

Funding status

FUNDING POLICY

The Funding Policy is a key governing document. It sets the funding objectives and the conditions under which COLA before and after retirement can be granted, whether contributions have to be increased, decreased or maintained, and, if necessary, when benefits must be reduced. You can consult the funding policy at **www.unb.ca/hr/academicempensionplan**.

ACTUARIAL VALUATION

As required by legislation, the Plan actuary appointed by the Board of Trustees must perform an actuarial valuation of the Plan every year to closely monitor its financial status. The valuation consists of comparing Plan assets with its liability using a series of assumptions to determine the funding level and conducting risk management tests. The last valuation was conducted as at July 1, 2019.

Funded Ratios as at July 1, 2019

	Open Group Funded Ratio	Termination Value Funded Ratio
VALUE OF ASSETS	$464,782,000	$379,047,000
LIABILITY	$406,174,000	$406,174,000
FUNDED RATIO	**114.4%**	**93.3%**
PREVIOUS YEAR (JULY 2018)	110.5%	89.8%

The **Open Group Funded Ratio** indicates the long-term financial health of the Plan. In this calculation, the value of assets includes an amount representing the present value of the next 15 years of excess contributions (being the contributions expected to be deposited to the Plan in excess of the value of the benefits to be accrued during those 15 years). This ratio is mainly used to determine actions to be taken by the Board of Trustees in accordance with the terms of the Funding Policy.

The **Termination Value Funded Ratio** is a measure of the current funded position of the Plan. It is used to calculate lump sum benefits payable from the Plan upon termination of employment of members.

RISK MANAGEMENT TESTS

Under regulatory requirements, a shared risk plan must implement a risk management approach to ensure the security of benefits. The actuary must conduct risk management tests based on multiple scenarios over a 20-year period. The results of these tests for the last two Plan years are as follows:

	July 1, 2019	July 1, 2018	Target	Met
PRIMARY RISK MANAGEMENT GOAL	**96.4%**	96.7%	95.0%	👍
SECONDARY RISK MANAGEMENT GOAL	**82.6%**	88.2%	75.0%	👍

The **primary risk management goal** is defined as the probability that base benefits will not need to be reduced in any year over the next 20 years. Provided that a target of 95.0% (was 97.5% before January 1, 2018) is achieved at a valuation date, COLA may, if funded ratios allow, be granted for the following January 1st.

The **secondary risk management goal** requires that, on average, over the next 20 years, active members can expect to receive at least 75% of the increase in the Consumer Price Index (CPI) on their accrued pensions before retirement and retirees, including beneficiaries, can expect to receive at least 75% of the amount of COLA that the prior formula would have provided. The 75% threshold must be met at conversion, and when major changes are subsequently made.

The Plan continues to meet both risk management tests as of July 1, 2019. We are hopeful that with continued focus on risk management, the Plan will continue to build a stronger financial position and continue to meet its risk management goals, which in turn would mean that COLA could continue to be granted in future years.

COST OF LIVING ADJUSTMENT

Since the Plan converted to a shared risk plan, a COLA, both during active membership and retirement, is not automatic but rather provided only when certain financial criteria are met. To grant a COLA in a given year, the Open Group Funded Ratio must be at least 105% and the primary risk management test must meet a 95.0% threshold (the threshold was 97.5% before January 1, 2018). The amended threshold of 95.0% was met at July 1, 2019, which means that COLA could be granted effective January 1, 2020. A memo dated February 13, 2020 was distributed to all members of the Plan and addressed this topic in detail.

IN CASE OF PLAN TERMINATION

It is important to note that, as per regulations and in the unlikely event that the Plan were to be terminated before July 1, 2023, the Superintendent of Pensions would have the authority to order that benefits be calculated according to the prior plan provisions, as if the Plan conversion never occurred.

Board of Trustees

The Board of Trustees is responsible for administering the Plan in accordance with the *Federal Income Tax Act*, the *New Brunswick Pension Benefits Act*, the official Plan text and the Funding Policy. Among their main responsibilities, the most important are to act in the best interest of all Plan members and to carefully manage risk. Members of the Board as at June 30, 2019 were as follows:

BOARD OF GOVERNORS' APPOINTEES	AUNBT APPOINTEES
Ms. Jennifer Morrison (Co-Chair)	Dr. Norm Betts (Co-Chair)
Ms. Karen Cunningham	Dr. Mehmet Dalkir
Mr. Peter McDougall	Prof. Dorothy DuPlessis
Mr. Ryan Johnston	Dr. Alyssa Sankey
Mr. David O'Brien	Ms. Brenda Collings

The day-to-day administration is conducted by the Human Resources & Organizational Development Department of UNB.

Partners and advisors in the management of the Plan

Actuary and Investment Consulting	Willis Towers Watson
Custodian	Vestcor Inc.
Auditor	KPMG LLP
Legal Counsel	McInnes Cooper
Pension Administration	Morneau Shepell
Investment Manager	Vestcor Inc.

For more information

The detailed Funding Policy, Financial Statements and Actuarial Valuation Reports are available on the Plan website at **www.unb.ca/hr/academicempensionplan**.