New Brunswick Public Service Pension Plan

2017 Annual General Meeting

Agenda

Welcome and Introduction	Marilyn Quinn *Chairperson, NBPSPP Board of Trustees*
2017 Actuarial Results	Yves Plourde *Partner, Morneau Shepell*
A Review of the NBPSPP	Leonard-Lee White *Vice-Chairperson, NBPSPP Board of Trustees and Contributing Plan Member*
Update from Vestcor Investment Manager and Plan Administrator	John Sinclair *President and CEO, Vestcor*
Question and Answer Session	Moderated by Susie Proulx-Daigle *Trustee, NBPSPP Board of Trustees and Contributing Plan Member*
Closing Remarks	

WELCOME

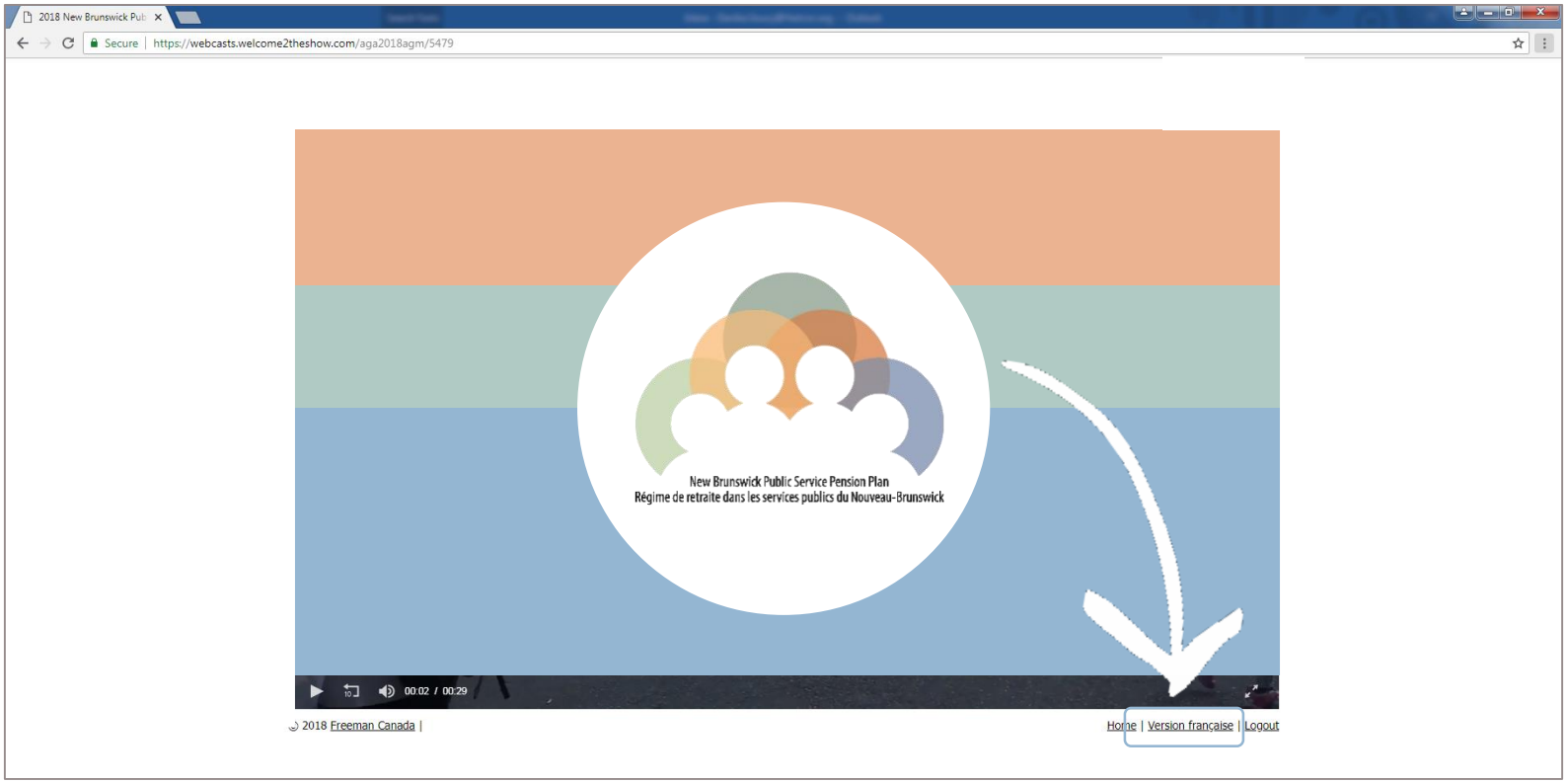
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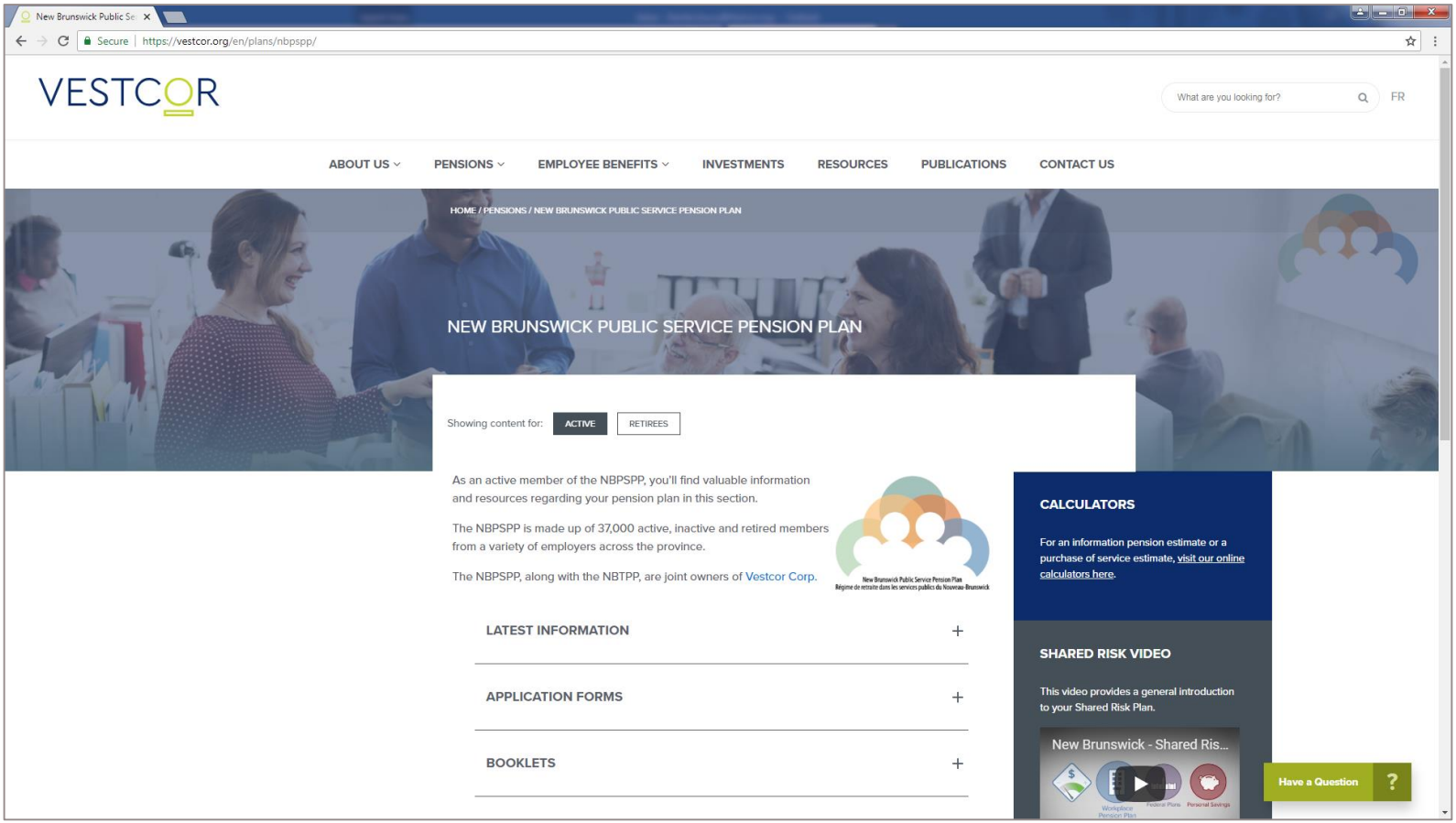
2018

ANNUAL GENERAL MEETING



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www.vestcor.org/NBPSPP



New Brunswick Public Service Pension Plan
Régime de retraite dans les services publics du Nouveau-Brunswick

Provincial Government

New Brunswick Nurses Union

New Brunswick Union of Public and Private Employees

Local 37 of the International Brotherhood of Electrical Workers

Canadian Union of Public Employees

New Brunswick Public Service Pension Plan

Annual General Meeting
Summary of Actuarial Valuation Results as at January 1, 2018

Yves Plourde, Vice President
September 6, 2018



Agenda

- Highlights of Funding Policy Valuation
  - Membership Summary
  - Plan Assets
  - Main Economic Assumptions
  - Financial Position
  - Normal Cost and Excess Contributions
  - 15-Year Open Group Funded Ratio
- Risk Management Test Results
- Cost of Living Adjustment (COLA) and Early Retirement Reductions

Funding Policy Valuation – Membership Summary

	January 1, 2018
Active Members	
• Number	18,010
• Average salary	$69,633
• Average age	46.8 years
• Average pensionable service	12.5 years
Deferred Vested Members	
• Number	3,842
• Average age	47.3 years
Retirees & Survivors	
• Number	16,099
• Average age	71.3 years
• Average annual lifetime pension	$21,239
• Average annual bridge benefit	$8,412

MORNEAU SHEPELL

Funding Policy Valuation – Reconciliation of Market Value of Assets

(in $M)	2017	2016
Market value at January 1st	$7,241.0	$6,926.7
Plus:		
• Members' contributions	$97.3	$97.1
• Employers' contributions	$146.5	$145.3
• Investment income (including net capital gains/losses)	$559.2	$450.1
Minus:		
• Pension and refunds	($378.0)	($364.5)
• Expenses	($14.0)	($13.7)
Market value at December 31st	$7,652.0	$7,241.0
Investment return (before expenses)	**7.81%**	**6.58%**

MORNEAU SHEPELL

Funding Policy Valuation – Breaking down $1 of benefit paid

$0.20 comes from Contributions



$0.80 comes from Investment return

At a 6.0% investment return

MORNEAU SHEPELL

Funding Policy Valuation – Main Economic Assumptions

Item	January 1, 2018
Discount rate	4.75% per annum
Inflation	2.25% per annum
Future cost of living adjustments	Not included in liability until it is granted by the Trustees

- Although we use 4.75% per annum to discount future cash flows, we estimate that the pension fund will earn an average of about 5.9% per annum over the next 20 years
  - Discount rate is a very conservative assumption
  - Investment return in excess of 4.75% per annum will be used to further secure pension benefits and provide cost of living adjustments

Funding Policy Valuation – Financial Position

		January 1, 2018	January 1, 2017
		In $M	In $M
A. Market value of assets		$7,652.0	$7,241.0
B. Funding policy liabilities		$6,831.0	$6,656.1
• Active members	$2,297.4		
• Retirees & survivors	$4,303.6		
• Deferred vested members and outstanding refunds	$230.0		
C. Excess (Unfunded liability) [A. – B.]		$821.0	$584.9
D. Termination value funded ratio [A. / B.]		112.0%	108.8%

MORNEAU SHEPELL

Funding Policy Valuation – Normal Cost and Excess Contributions

Item	Year Following January 1, 2018 In $M	% of Pay
A. Total normal cost	$149.4	12.40%
B. Members' contributions	$99.4	8.25%
C. Employers' contributions	$150.5	12.50%
D. Total contributions in excess of normal cost [B.+ C. – A.]	**$100.5**	**8.35%**
Present value of next 15 years of excess contributions	$1,215.8 M	

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Funding Policy Valuation – 15-Year Open Group Funded Ratio

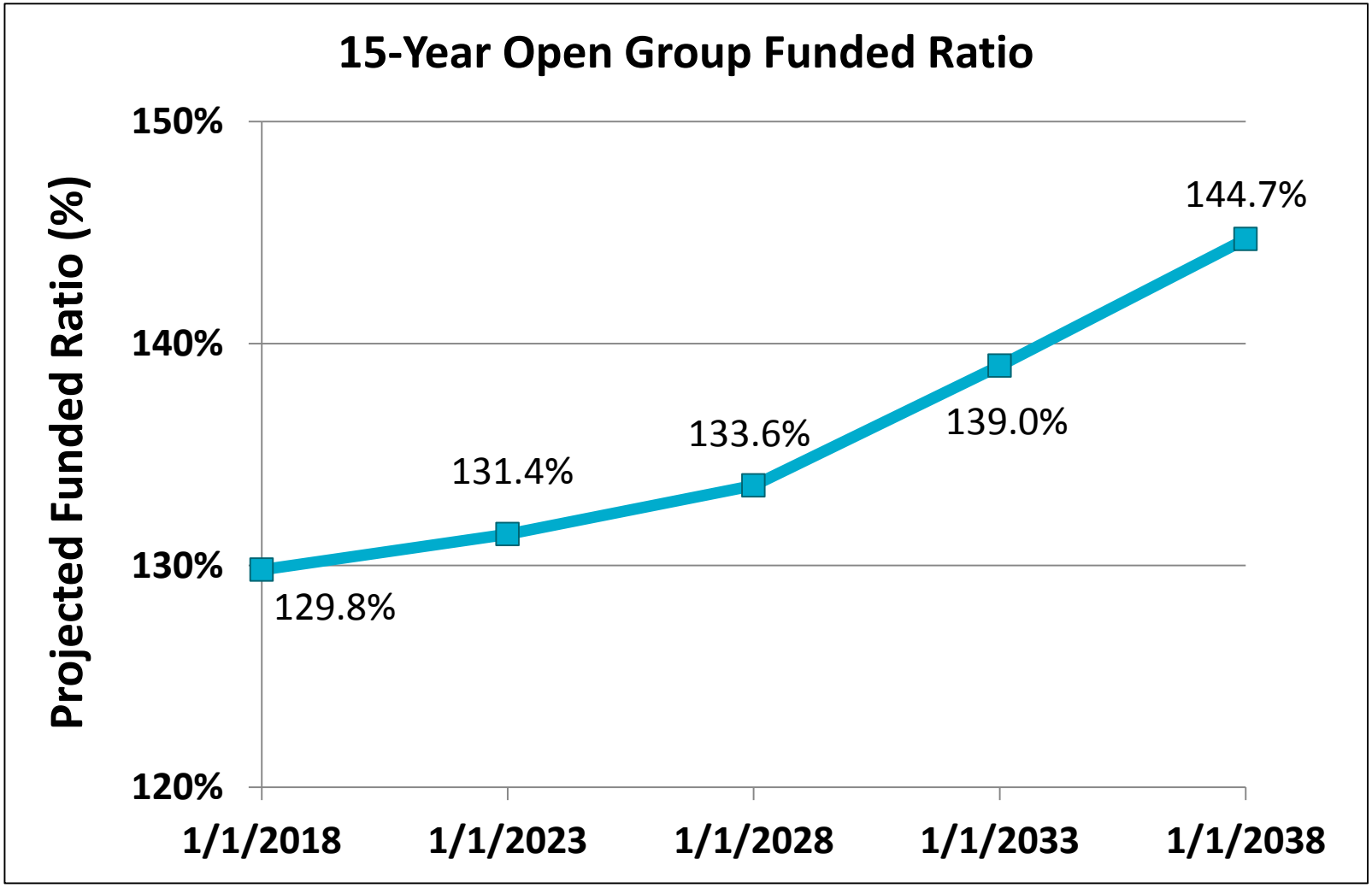
Item	January 1, 2018	January 1, 2017
A. Market value of assets	$7,652.0 M	$7,241.0 M
B. Present value of next 15 years of excess contributions	$1,215.8 M	$1,210.1 M
C. Total assets with PV of excess contributions [A. + B.]	$8,867.8 M	$8,451.1 M
D. Funding policy liabilities	$6,831.0 M	$6,656.1 M
E. 15-year open group funded ratio [C. / D.]	**129.8%**	**127.0%**

MORNEAU SHEPELL

Risk Management Test Results

Main Risk Management Tests	January 1, 2018	January 1, 2017
Primary risk management goal Probability that base benefits will not be reduced at any point over the next 20 years **(Must be at least 97.5% to be able to award cost of living adjustments)**	**98.95%**	**98.30%**
Secondary risk management goal Average cost of living adjustments over the next 20 years (The goal under legislation is to exceed 75% of CPI)	**86.3% of CPI**	**82.3% of CPI**

Projection of
15-Year Open Group Funded Ratio



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Cost of Living Adjustment at January 1, 2019

- Cost of living adjustment awarded as of January 1, 2019

Increase in Consumer Price Index (inflation) for purpose of adjustment as at January 1, 2019	1.88%
Cost to provide a cost of living adjustment of 1.88%: • Active Members $43.2 M • Retirees & Survivors $74.1 M • Deferred Vested Members $4.3 M	$121.6 M

- **Board of Trustees granted cost of living adjustment of 1.88% effective January 1, 2019**

MORNEAU SHEPELL

Impact of Cost of Living Adjustment at January 1, 2019 on a New Retiree

- Sample impact on a new retiree:

A. Assumed new retiree annual pension amount Assumed salary at retirement of about $68,000, 30 years of service and retired at age 60 on 1.1.2018	$37,000 per annum
B. Impact of cost of living adjustment of 1.88% [0.0188 x A.]	$696
C. Annual pension amount starting January 1, 2019 [A. + B.]	$37,696 per annum

Note: Amounts shown include lifetime pension and bridge payable up to age 65.

Impact of Cost of Living Adjustment at January 1, 2019 on an Active Member

- Sample impact on a typical active member:

	Pension accrued before January 1, 2014	Pension accrued after January 1, 2014
A. Accrued pension of a typical active member at January 1, 2018 Age 58 and 25 years of service at 1.1.2018	$25,000 per annum	$5,000 per annum
B. Impact of cost of living adjustment of 1.88% granted January 1, 2019 [.0188 x A.]	$470	$94
C. Accrual of pension for year 2018 [.02 x $69,000] Assumed salary in 2018 of $69,000	n/a	$1,380
D. Accrued pension as at January 1, 2019 [A. + B. + C.] Age 59 and 26 years of service at 1.1.2019	$25,470 per annum	$6,474 per annum

Note: Pension amounts shown include lifetime pension and bridge payable up to age 65.

Impact of Early Retirement Reductions

- Same sample active member retires on January 1, 2019:

	Pension accrued before January 1, 2014	Pension accrued after January 1, 2014	Total
A. Accrued pension of our typical active member at January 1, 2019 Age 59 with 26 years of service at 1.1.2019	$25,470 per annum	$6,474 per annum	$31,944 per annum
B. Early retirement reductions Assume Member Retires at Age 59	3% per year that pension starts before age 60: 1 year early: 3% reduction	5% per year that pension starts before age 65: 6 years early: 30% reduction	
C. Impact of early retirement reductions	Minus $764 (3% x $25,470)	Minus $1,942 (30% x $6,474)	Minus $2,706
D. Pension payable starting January 1, 2019 [A. - C.] Age 59 with 26 years of service at 1.1.2019	$24,706 per annum	$4,532 per annum	$29,238 per annum

Note: Pension amounts shown include lifetime pension and bridge payable up to age 65.

MORNEAU SHEPELL

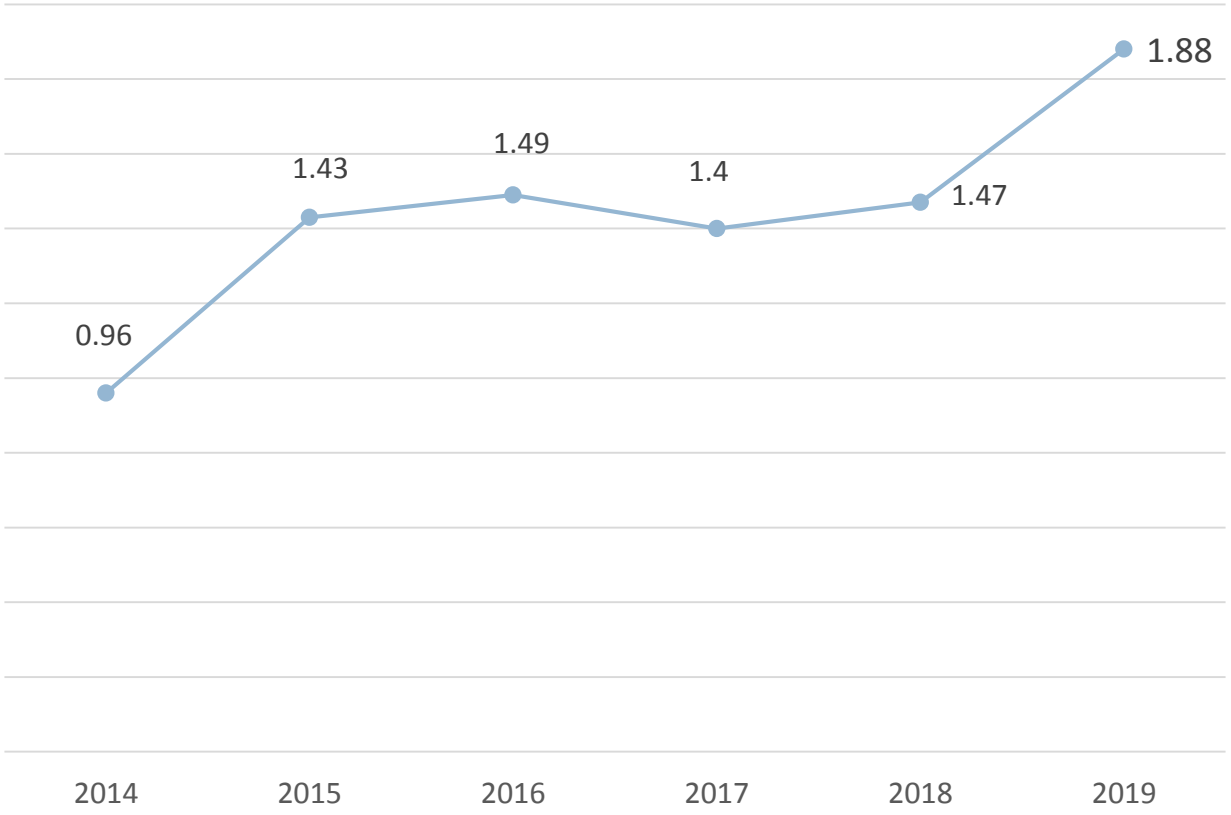


Thank You!

MORNEAU SHEPELL

MENTAL HEALTH PARTNER

Cost of Living Adjustment





New Brunswick Public Service Pension Plan
Régime de retraite dans les services publics du Nouveau-Brunswick



4 Years of Shared Risk

A recap of the New Brunswick Public Service Pension Plan (NBPSPP)

Primary Purpose

- Provide a secure sustainable pension to plan members upon retirement in respect of their service as employees
- Operate with a risk-focused management approach delivering a high degree of contribution and pension benefit certainty



Main Features

- Heavily focused on security of Base Benefits
- Strict annual risk management tests
- Clear funding guidelines
  - Contributions
  - Benefit payments
  - Conditional indexing (Cost of Living Adjustment)
- Sound investment policy
- Clear and consistent disclosure to members



Legislation

- The New Brunswick *Pension Benefits Act* and Regulations (the *PBA*)
  - Shared Risk Pension Plans (Part 2)
- The Federal *Income Tax Act* and Regulations (the *ITA*)



Governing Documents

- Plan Text
- Funding Policy
- Investment Policy



Governing Documents

- Developed by and responsibility of the Plan's Governing Parties:
  - The Province, represented by the Minister of Finance
  - Unions, as listed in Appendix "C" of the MOU available at Vestcor.org/nbpspp
- Filed and monitored by the Superintendent of Pensions (FCNB), Canada Revenue Agency



Governance

- NBPSPP Board of Trustees
- Trustees appointed by Governing Parties as per the Plan Text
- Responsible for:
  - Administering the NBPSPP in accordance with legislation and governing documents
  - Developing the Investment Policy, with support of the Fund Manager, who is responsible for its implementation



Administering the Plan

Trustees:

- Appointed Vestcor Inc. as the Pension Fund Manager and Plan Administrator
- Approved the Investment Policy and review it annually
- Award COLA, as able per the Funding Policy
- Monitor the activities and results of the Pension Fund Manager and Plan Administrator



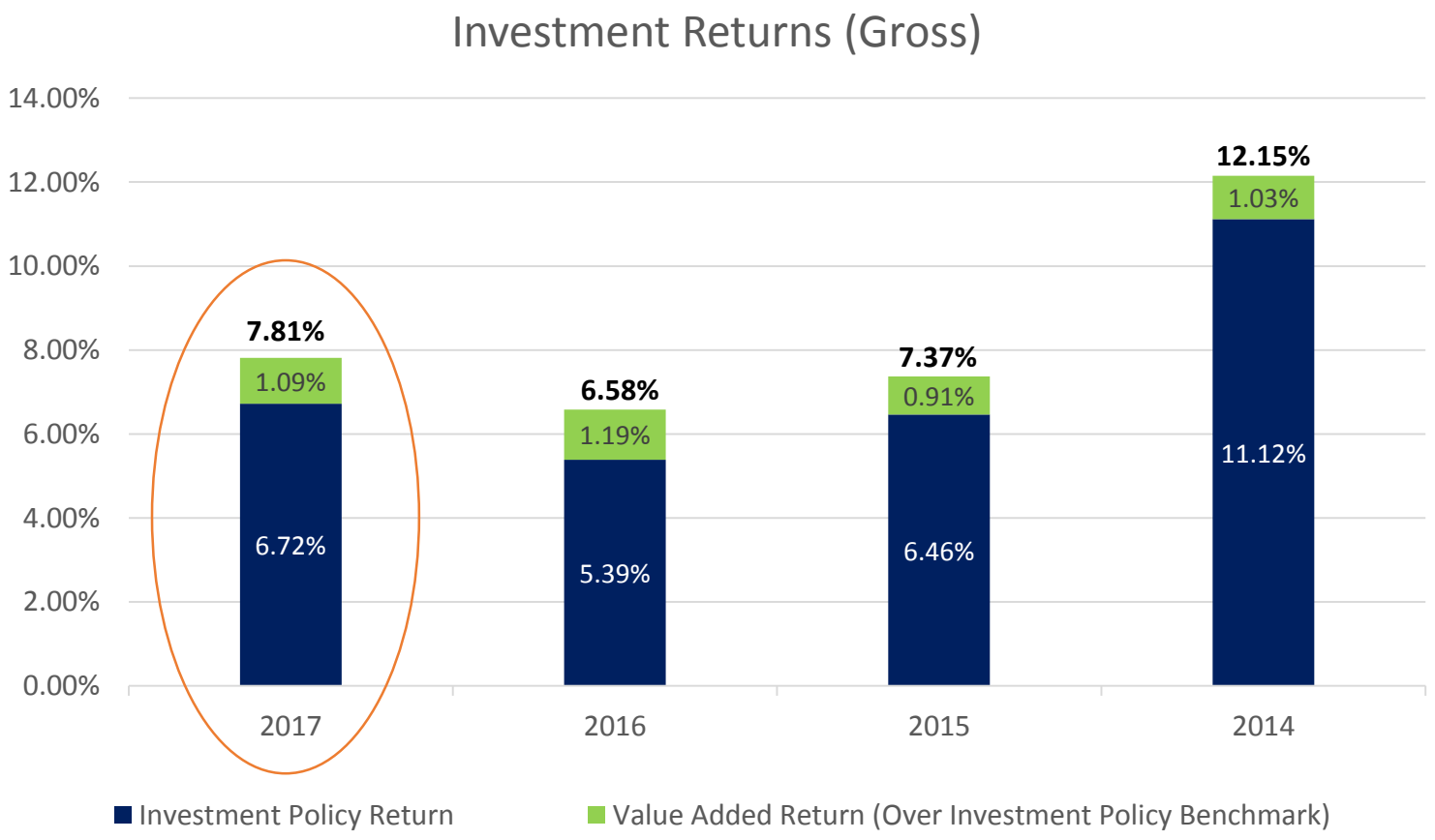
About Vestcor Inc.

- Jointly-owned by NBPSPP and NBTPP through Vestcor Corp.
- Have an independent, experienced, knowledge-based Board of Directors
- Ensure audits are conducted annually by external national accounting firm, including financial statements, performance reports, external business audits
- Publish a detailed Annual Report containing significant details and disclosure

Investment Management Guidelines

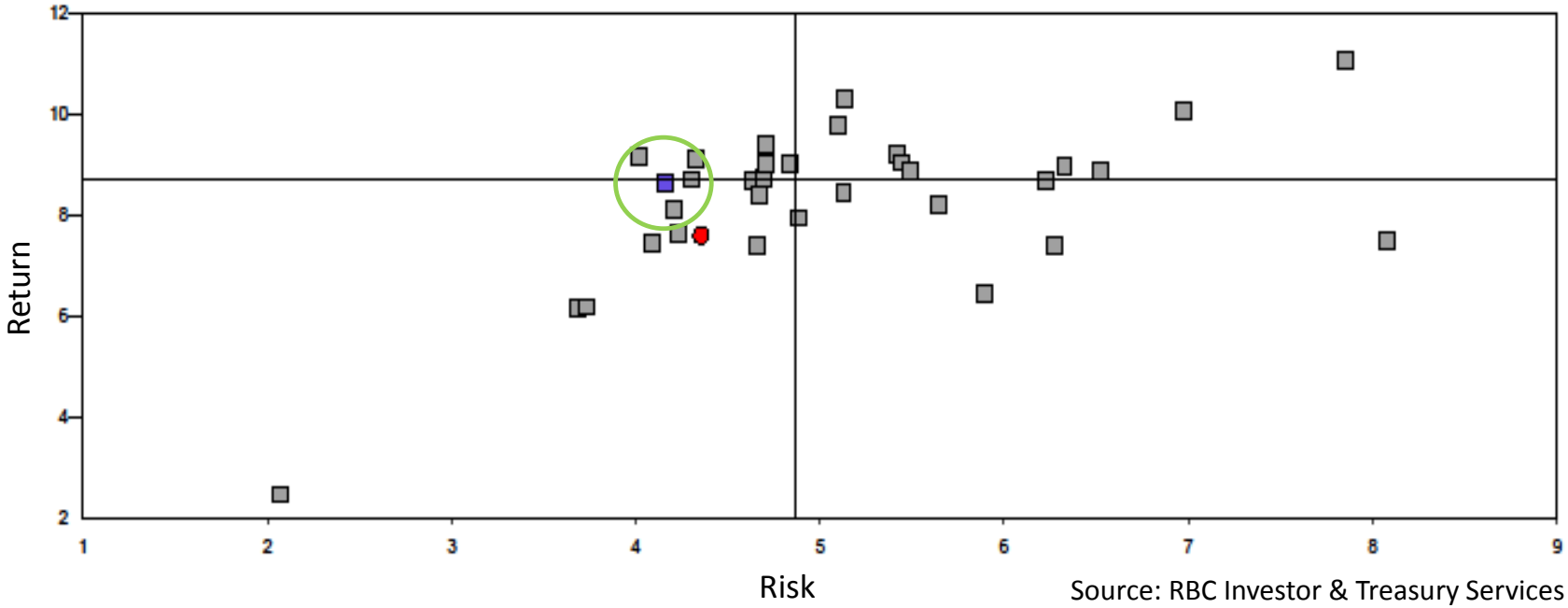
- Investments must fulfill the Board's Investment Policy
- Investment portfolio must pass annual risk management goals
- Portfolio is:
  - Designed to avoid undue investment risk and excessive market volatility over **shorter time periods**
  - Expected to provide rates of return in excess of those achieved by passive management of the policy portfolio over the **medium term**
  - Targeted to provide value-added contribution (active management) based on a moving **four-year average target**

Investment Returns



Strong Long-term Return & Risk Performance

Return vs. Risk Analysis – 4 Years Ended December 31, 2017



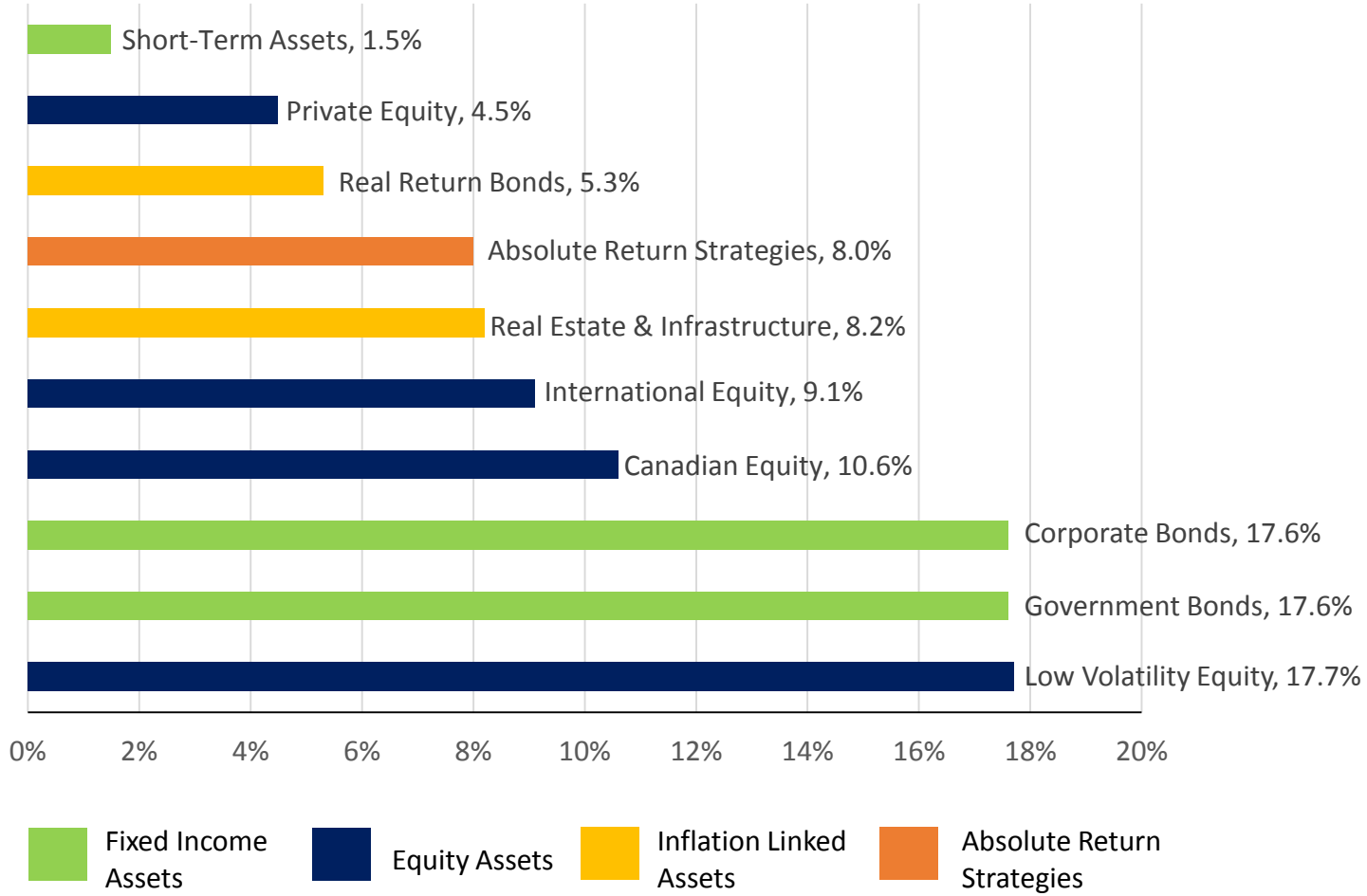
Source: RBC Investor & Treasury Services

	Variability Risk	Gross Return (p.a.)
RBCIS Median	4.86%	8.71%
Vestcor Funds	4.16%	8.66%
NBPSPP	4.01%	8.45%

1. Low annualized risk meets shared risk pension plan regulatory requirements
2. Strong performance versus other Pension Plans

Asset Mix

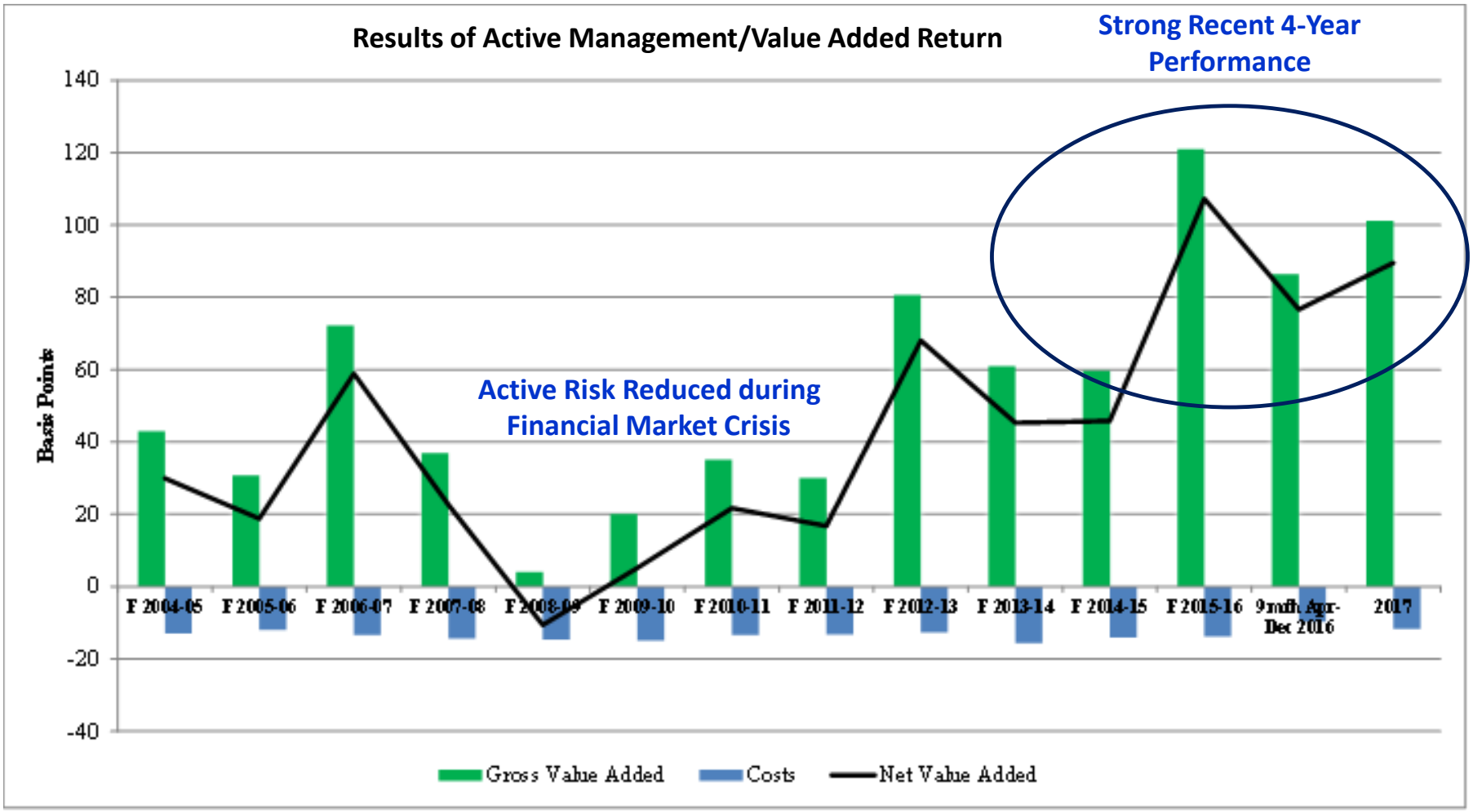
As at December 31, 2017



VESTCOR

Long-term Value vs. Benchmarks

- Active investment management has added significant value over client investment policy benchmarks, at a declining expense ratio



Returns – In Numbers

	2017	2016	2015	2014
Net Investment Income	**$ 559.20**	**$ 450.10**	**$ 481.20**	**$ 718.10**
Approx. Net Investment Policy Return	$ 489.94	$ 377.30	$ 430.48	$ 667.15
Approx. Net Vestcor Active Management Return	$ 69.26	$ 72.80	$ 50.72	$ 50.95

Millions of dollars

- Active Management Return is equivalent to average annual pension payments for 2,336* members

*Based on average annual pension paid in 2017.

VESTCOR

Low Cost Investment Manager

- Very low management expense ratio has been declining over time, and is currently approximately 12 basis points (bp) or 0.12%.

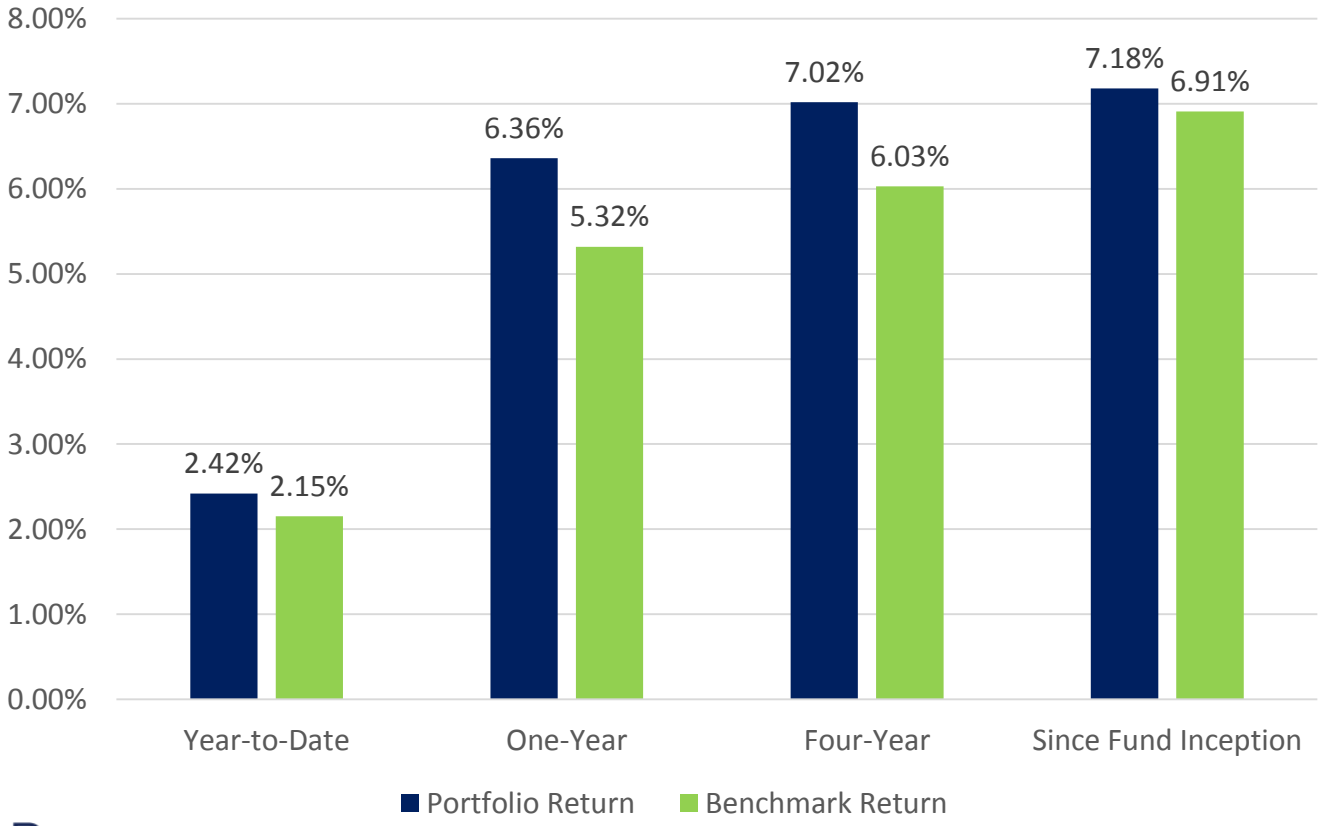
Indicative Investment Related Fees Paid for Institutional Asset Management - Total Funds Canada*

	All Funds	AUM < $250 million	AUM > $1 billion
Active Balanced Investment Management	63.6	38.0	20.0
Accounting	4.4	19.9	0.7
Legal Fees	1.6	2.0	1.8
Record Keeping	4.5	12.6	1.5
Administration	14.9	47.4	6.4
Trust & Custody	5.7	8.5	6.3
Implied Total External Manager Fees (bp)	**94.7**	**128.4**	**36.7**

**Source: 2017 Canadian Institutional Investors Survey - Greenwich Associates February, 2018*

Mid-Year Results – *as of June 30, 2018*

- Fair Value of assets as at June 30, 2018 $ 7.744 billion
- Increase from FV at December 31, 2017 $ 105 million



VESTCOR

Administration Services

- Pension Administration – Perform day-to-day administration of pension and employee benefits plans
- Member Services – Provide customer support to:
  - Active, deferred, and retired members
  - Surviving spouses and beneficiaries
  - Employers
- Board Support Services – Offer governance support and best practice expertise to pension client boards

Administration Services

- Cost-effective compared to peers
- Regular measurement of client satisfaction (services provided to plan members)
- Introduced a new website, providing added value and ease of access to information for members and employers
- Launched new Pension Estimate calculator, increasing accuracy of estimates and improving the estimate process
- Undertaking important system modernization, leading to future cost savings, more timely service, increased security and reliability long-term



Thank you!

Visit Vestcor.org for more information.

VESTCOR

Q&A

QUESTION & ANSWER SESSION



New Brunswick Public Service Pension Plan
Régime de retraite dans les services publics du Nouveau-Brunswick