

**Date:** April 26, 2017

**To:** All Members of the Shared Risk Plan for Academic Employees of the University of New Brunswick (AESRP)

**From:** The Board of Trustees

**Subject:** Cost of Living Adjustment (COLA) for January 1, 2017

Each year after the actuarial valuation of the Plan is completed, the Board of Trustees has to determine if any actions on their part are necessary. One of the most important decision to be made by the Board of Trustees is whether a cost of living adjustment (COLA) will be granted for the year.

**Based on the results of the most recent actuarial valuation as at July 1, 2016, it has been determined that the Board of Trustees cannot grant COLA for January 1, 2017**

**What are the criteria to determine if a COLA can be granted?**

Since the Plan converted to a shared risk plan on July 1, 2013, COLA is conditional. This means it is not automatic but rather provided only when certain financial criteria are met. This is part of the new approach under a shared risk plan to carefully manage risks and ensure the ongoing financial health of the Plan.

Under the Funding Policy, two main criteria must be met to grant COLA (see Appendix A for more details) in a given year.

Criteria	Trigger or threshold	Current measure over last year	Met
Funding level	Greater than 105%	July 1, 2016: 106.4% July 1, 2015: 118.9%	✓
Primary risk management goal	Probability that base benefits will not need to be reduced in the next 20 years is at least 97.5%	July 1, 2016: 93.5% July 1, 2015: 98.1%	✗

The Plan's funding level deteriorated to 106.4% as at July 1, 2016. The deterioration was mainly due to an investment performance of 2.5% for the fiscal year, which is below the long-term expectations for the Plan, combined with a more pessimistic outlook with respect to future investment returns which prompted the Board of Trustees to reduce the discount rate used to value the Plan's liability. This economic environment had the effect of bringing the primary risk management measure below the 97.5% threshold.

Given the current level of the primary risk management measure of 93.5%, COLA cannot be provided effective January 1, 2017.

This is a prudent measure to respond to the evolving financial condition of the Plan and ultimately ensure its long-term sustainability.

**What should be expected in the future?**

The Board of Trustees is hopeful that with the continued focus on risk management, the Plan will be in a position to meet the primary risk management goal of 97.5% again in the not too distant future, at which point COLA could resume.

The next actuarial valuation will be performed as of July 1, 2017, and the results will determine whether COLA can be granted by the Board of Trustees for January 1, 2018, based on the same two criteria.

In the meantime, the COLA amounts that were not granted effective January 1, 2017 are not lost. Should the Board of Trustees be in a position to grant COLA again at a future date, the amounts not granted on January 1, 2017 will be taken into account in determining the eligible COLA to be granted at that time.

Appendix B provides a history of Eligible Base COLA amounts since conversion of the Plan, and indicates what percentage of those Eligible Base COLA amounts have been granted to date.

**Questions?**

If you have questions about this letter or any aspect of your pension benefits, please contact Kevin Ring, HR Consultant (Benefits & Pensions), at (506) 453-4648, or by email at [kring@unb.ca](mailto:kring@unb.ca).

Yours truly,



Larry J. Guitard  
Co-Chair

**Board of Trustees - Shared Risk Plan for Academic Employees of the University of New Brunswick**

## Appendix A – COLA rules

The Cost of Living Adjustment (COLA) is determined annually based on the rules set in the two following official Plan documents.

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### Funding Policy

The Funding Policy sets the criteria that must be met in order for COLA to be granted, and it also sets the amount that can be spent on COLA.

#### Two criteria that must be met for COLA to be granted:

1. **Funding level:** COLA can be granted only when the funding level of the Plan is greater than **105%** (before granting the COLA), as determined by the latest actuarial valuation.
2. **Primary risk management goal:** the Plan must still meet the *primary risk management goal* after COLA has been granted. This goal is defined as a probability of at least **97.5%** that base benefits will **not** need to be reduced in any year over the next 20 years.

**Amount that can be spent:** If the two criteria are met, an amount equal to 17% of the portion of the funding level between 105% and 140% plus all excess above 140% can be spent on COLA.

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### Official Plan text

This document defines how to calculate the maximum COLA that can be applied for each category of members. (also referred to as Eligible Base COLA)

#### For active members

COLA cannot exceed the increase in the Consumer Price Index (CPI) for the year. COLA is applied to Pensionable salary earned during prior years that are in turn used to calculate the accrued pension payable at retirement.

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#### For terminated members with a deferred pension and retirees

COLA is based on the increase in the Consumer Price Index (CPI), with different formula applying to pension earned during different periods, as follows:

Pension accrued before July 1, 2004	CPI up to maximum of 4.5% or 6% depending on the period
Pension accrued after June 30, 2004	The sum of: <ol style="list-style-type: none"> <li>I. the increase in the CPI, subject to a maximum increase of 0.5%, plus</li> <li>II. the lesser of:               <ol style="list-style-type: none"> <li>a) the excess, if any, of the 3-year average annual investment return of the pension fund over 7.75%; and</li> <li>b) the excess, if any, of the 3-year average annual increase in CPI over the increase in (I) above.</li> </ol> </li> </ol>

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COLA must be approved by the Board of Trustees, made up of five trustees appointed by the Association of University of New Brunswick Teachers and five trustees appointed by the University.

When COLA is granted, the Board must provide COLA for the current year and for any past year for which it was missed or partially granted, up to the amount available to spend for the year.

Both the Funding Policy and the official Plan text were established by the University and the Association of University of New Brunswick Teachers in accordance with the *Pension Benefits Act* and the shared risk plans regulations.

You can consult both documents on the following website: [www.unb.ca/hr/academicpensionplan](http://www.unb.ca/hr/academicpensionplan).

## Appendix B – COLA history

Effective Date	Consumer Price Index	Maximum COLA that could be granted in accordance with the Official Plan text (also referred to as Eligible Base COLA)	% of Eligible Base COLA granted
January 1, 2014	0.96%	<b>For active members:</b> <b>For terminated and retired members:</b> <ul style="list-style-type: none"> <li>▪ Pension accrued before July 1, 2004: 0.96%</li> <li>▪ Pension accrued after June 30, 2004: 0.50%</li> </ul>	n/a  100%
January 1, 2015	1.43%	<b>For active members:</b> <b>For terminated and retired members:</b> <ul style="list-style-type: none"> <li>▪ Pension accrued before July 1, 2004: 1.43%</li> <li>▪ Pension accrued after June 30, 2004: 1.34%</li> </ul>	1.43%  100%
January 1, 2016	1.49%	<b>For active members:</b> <b>For terminated and retired members:</b> <ul style="list-style-type: none"> <li>▪ Pension accrued before July 1, 2004: 1.49%</li> <li>▪ Pension accrued after June 30, 2004: 1.29%</li> </ul>	1.49%  100%
January 1, 2017	1.40%	<b>For active members:</b> <b>For terminated and retired members:</b> <ul style="list-style-type: none"> <li>▪ Pension accrued before July 1, 2004: 1.40%</li> <li>▪ Pension accrued after June 30, 2004: 0.50%</li> </ul>	1.40%  0%