

**Date:** February 1, 2021

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

**From:** The Board of Trustees (“Trustees”)

**Subject:** Cost of Living Adjustment (“COLA”) for January 1, 2021




Each year following the completion of the actuarial valuation of the Plan, the Board must determine if any actions are necessary on their part. One of the most important decisions to be made by the Board is whether COLA will be granted for the year.

**Based on the results of the most recent actuarial valuation as at July 1, 2020, it has been determined that the Board of Trustees cannot grant COLA effective January 1, 2021.**

**What are the criteria to determine if 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 in accordance with the requirements under the *New Brunswick Pension Benefits Act* and the Shared Risk Plan regulations, to carefully manage risks and ensure the ongoing financial health of the Plan.

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

Criteria	Trigger or threshold	Results	Met
Funding level	Greater than 105%	July 1, 2020: 112.0%	
Primary risk management goal	Probability that base benefits will not need to be reduced in the next 20 years is at least 95%	July 1, 2020: 91.2%	
Secondary risk management goal	Probability that 75% of the benefit increases intended will be granted over the next 20-year period	July 1, 2020: 72.6%	

The Plan’s funding level decreased slightly as at July 1, 2020. The main reasons for the reduction in the funding level were lower than expected investment returns for the Plan, and a decrease in active membership. The decrease in funding level had a negative effect on the primary and secondary risk management measures, bringing each of these measures below the thresholds required to provide COLA. Given the current level of the primary and secondary risk management measures, COLA cannot be provided effective January 1, 2021.

This is a regulatory requirement that the Board believe is a prudent approach to evaluate the evolving financial condition of the Plan and ultimately ensure its long-term sustainability.

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

The Board is hopeful that with its continued focus on risk management, the Plan will be in a position to once again meet the primary and secondary risk management goals at which point the Board could grant additional COLA.

The next actuarial valuation will be prepared as of July 1, 2021, and the results will determine whether COLA can be granted by the Board effective January 1, 2022, based on the same criteria.


It is important to remember that the COLA amounts that have not been granted to date are not lost. Should the Board be in a position to grant COLA again in the future, the amounts not granted since January 1, 2017 will be considered and any COLA granted, either partial or full, will include these amounts.

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

## **Questions?**

If you have questions about this letter or any aspect of your pension benefits, please contact Bonnie Carson, HR Consultant (Benefits & Pensions), at (506) 458-7679, or by email at [bonnie.carson@unb.ca](mailto:bonnie.carson@unb.ca).

Yours truly,



Jennifer Morrison  
Co-chair



Norm Betts  
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.

#### Three 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 **95.0%** that base benefits will **not** need to be reduced in any year over the next 20 years.
3. **Secondary risk management goal:** This goal is defined as a probability of at least **75.0%** that the intended benefit increases will be granted over the next 20-year period.

**Amount that can be spent:** If the two risk management goals 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

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

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  <b>100%</b>
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>	  <b>100%</b>
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>	  <b>100%</b>
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>	  <b>47.16%</b>
January 1, 2018	1.46%	<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: 1.46%</li> <li>▪ Pension accrued after June 30, 2004: 0.50%</li> </ul>	  <b>47.16%</b>
January 1, 2019	1.88%	<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: 1.88%</li> <li>▪ Pension accrued after June 30, 2004: 0.50%</li> </ul>	  <b>47.16%</b>
January 1, 2020	2.12%	<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: 2.12%</li> <li>▪ Pension accrued after June 30, 2004: 0.50%</li> </ul>	  <b>30.59%</b>
January 1, 2021	1.46%	<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: 1.46%</li> <li>▪ Pension accrued after June 30, 2004: 0.50%</li> </ul>	  <b>0%</b>