

AESRP

Financial Update – July 2016

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, 2016 and the evolution of the main financial indicators. Please read the following pages for more details and explanations.

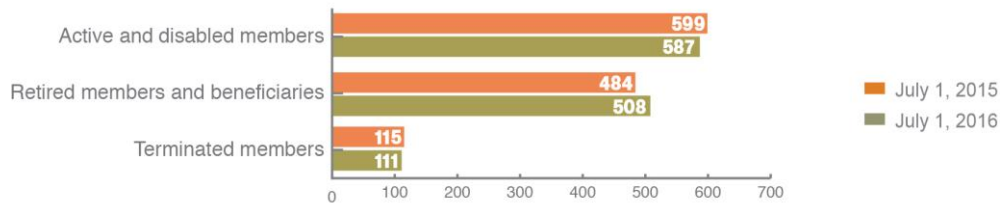
	July 1, 2016	July 1, 2015	Comments
PENSION FUND ASSETS	\$300,780,000	\$289,652,000	
ANNUAL PERFORMANCE OF PENSION FUND INVESTMENTS	2.5%	4.7%	Benchmark return for the fund for 12-month period ending July 1, 2016 was -1.1%
CONTRIBUTIONS (preceding 12-month period)			
By Members	\$8,718,000	\$8,511,000	Contribution rate unchanged since July 2013
By the University of New Brunswick	\$8,718,000	\$8,511,000	Increase is due to increases in salaries
FUNDING STATUS			
Plan liability	\$356,623,000	\$320,751,969	
Open Group Funded Ratio	106.4%	116.7%	Must be greater than 105% for COLA to be granted
Termination Value Funded Ratio	84.3%	90.3%	
RISK ASSESSMENT			
Primary risk management test	93.5%	98.1%	Must be at least 97.5% for COLA to be granted
Secondary risk management test	80.2%	84.1%	Goal is to meet or exceed 75%

The financial position of the Plan deteriorated from July 1, 2015 to July 1, 2016. The primary risk management goal, set by law and defined in the Funding Policy, was not met at July 1, 2016 for the first time since the Plan was converted to a shared risk plan. This means that a Cost of Living Adjustment (COLA) could not be granted effective January 1, 2017. The secondary risk management test however continues to be met. COLA that is not granted this year may be granted at a future date when the primary risk management goal is met again. 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, 2016 actuarial valuation. More information on the risk management tests and the conditions required to be met to award COLA are found later in this document.



Membership

From July 2015 to July 2016, the number of members changed as follows:



On July 1, 2016, the average age of active and disabled members was 51.4 and the average age of retired members and beneficiaries was 73.4.



Financial statements

Here is an overview of the changes in assets for the year ended June 30, 2016, compared to the preceding year.

	2016	2015
NET ASSETS, BEGINNING OF YEAR	\$289,652,000	\$272,208,000
INCREASE IN ASSETS	\$24,611,000	\$30,130,000
Investment income and change in market value	\$7,175,000	\$13,108,000
Total contributions (members and UNB)	\$17,436,000	\$17,022,000
DECREASE IN ASSETS	(\$13,483,000)	(\$12,686,000)
Pension benefits	(\$11,218,000)	(\$10,338,000)
Lump sum settlements	(\$756,000)	(\$455,000)
Investment and administrative expenses	(\$1,509,000)	(\$1,893,000)
NET ASSETS, END OF YEAR	\$300,780,000	\$289,652,000



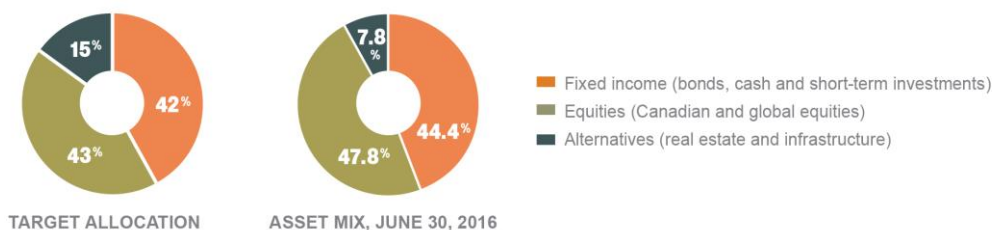
Investments

INVESTMENT RETURN

The rate of return earned on the market value of assets, from July 1, 2015 to June 30, 2016 was 2.5%. The benchmark return for the fund for the same period was -1.1%.

ASSET ALLOCATION

Here is how the pension fund assets were invested as at June 30, 2016, compared to the target asset allocation set by the investment policy approved by the Board of Trustees. A gradual transition to the target asset allocation was started in 2015 and is almost complete at June 30, 2016.





Funding status

FUNDING POLICY

The Funding Policy is a key governing document. It sets the funding objectives and the conditions under which cost of living adjustments (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/academicpensionplan.

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, 2016.

Funded Ratios as at July 1, 2016

	Open Group Funded Ratio	Termination Value Funded Ratio
VALUE OF ASSETS	\$379,347,000	\$300,559,000
LIABILITY	\$356,623,000	\$356,623,000
FUNDED RATIO	106.4%	84.3%
PREVIOUS YEAR (JULY 2015)	116.7%	90.3%

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, 2016	July 1, 2015	Target	Met
PRIMARY RISK MANAGEMENT GOAL	93.5%	98.1%	97.5%	
SECONDARY RISK MANAGEMENT GOAL	80.2%	84.1%	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 the target of 97.5% is achieved at a valuation date, COLA may, if funded ratios allow, be granted for the following January 1st.

The main reasons for missing the primary risk management goal at July 1, 2016 are the combined effects of a low investment return for the year ending June 30, 2016, a continued decline in future expectations of investment return on assets, and the adoption of a more conservative discount rate to value the Plan liability. We are hopeful that with continued focus on risk management, the Plan will be in a position to meet the primary risk management goal of 97.5% in the not too distant future, and at which point COLA could resume. COLA amounts that are 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 year, the amounts not granted on January 1, 2017 will be taken into account in determining the COLA to be granted at that time.

The **secondary risk management goal** requires that the Plan be designed such that, on average, over the 20 years following conversion, 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.

COST OF LIVING ADJUSTMENT

Since the Plan converted to a shared risk plan, a Cost of Living Adjustment (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 the 97.5% threshold. On July 1, 2016, for the first time since conversion of the Plan to a shared risk plan, the primary risk management goal is not met. This means that COLA cannot be granted on January 1, 2017. It is necessary for the Board of Trustees to halt COLA at this time in order to respond to the evolving financial condition of the Plan and ultimately ensure its long-term sustainability. Once the primary risk management goal is met again at a future date and the Open Group Funded Ratio exceeds 105%, the Board of Trustees will be in a position to resume providing COLA, including a catch up of those COLAs that have been missed or only partially provided in the past.

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, 2018, benefits would be calculated according to the prior plan provisions, as if the 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, 2016 were as follows:

BOARD OF GOVERNORS' APPOINTEES

Mr. Larry Guitard (Co-Chair)
Mr. Ryan Johnston
Mr. Peter McDougall
Ms. Barbara Nicholson

AUNBT APPOINTEES

Dr. Norm Betts (Co-Chair)
Dr. Mehmet Dalkir
Prof. Dorothy DuPlessis
Dr. Alyssa Sankey
Dr. Gopalan Srinivasan

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 Management Consulting
Custodian
Auditor
Legal Counsel
Pension Administration
Investment Manager

Willis Towers Watson
Vestcor Investment Management Corporation
KPMG LLP
McInnes Cooper
Morneau Shepell
Vestcor Investment Management Corporation



For more information

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