AESRP

Financial Update – July 2022

The Board of Trustees for the Shared Risk Plan for Academic Employees of the University of New Brunswick (AESRP or Plan) 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 is 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, 2022 and the evolution of the main financial indicators. Please read the following pages for more details and explanations.

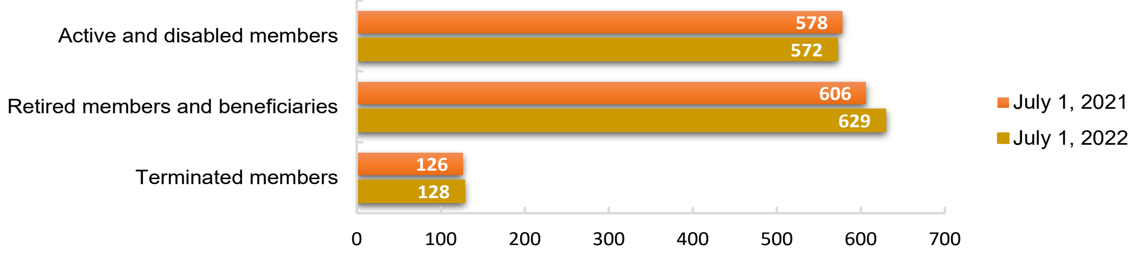
	July 1, 2022	July 1, 2021	Comments
PENSION FUND ASSETS	$401,606,000	$423,078,000	
ANNUAL PERFORMANCE OF PENSION FUND INVESTMENTS	-4.9%	9.0%	Benchmark return for the fund for 12-month period July 1, 2022 was -8.1%
CONTRIBUTIONS (preceding 12-month period)			
By Members	$9,534,000	$9,404,000	Contribution rate unchanged since July 2013
By the University of New Brunswick	$9,534,000	$9,404,000	
FUNDING STATUS			
Plan liability	$448,195,000	$434,122,000	
Open Group Funded Ratio	108.4%	117.0%	Must be greater than 105% for COLA to be granted
Termination Value Funded Ratio	89.6%	97.5%	
RISK ASSESSMENT			
Primary risk management test	98.0%	95.9%	Must be at least 95.0% for COLA to be granted
Secondary risk management test	83.7%	81.2%	Goal is to meet or exceed 75%

The financial position of the Plan deteriorated from July 1, 2021 to July 1, 2022. The main reason for the decrease in the funded ratios is the investment return, which was lower than long-term expectations. However, our investment manager, in a very difficult market environment, was able to materially beat the benchmark portfolio by about 3.2% for the year. Notwithstanding the difficult investment environment, the Plan still meets its primary and secondary risk management test results and could continue to provide COLA on January 1, 2023.

There has been no need to change contribution rates or otherwise alter benefits payable by the Plan as a result of the July 1, 2022 actuarial valuation. More information on the risk management tests and the granting of COLA are found later in this document.

Membership

From July 2021 to July 2022, the number of members changed as follows:



On July 1, 2022, the average age of active and disabled members was 50.7 and the average age of retired members and beneficiaries was 75.9.

Financial statements

Here is an overview of the changes in assets for the year ended June 30, 2022, compared to the preceding year.

	2022	2021
NET ASSETS, BEGINNING OF YEAR	$423,078,000	$389,477,000
INCREASE (DECREASE) IN ASSETS	**($1,818,000)**	**$53,516,000**
Investment income and change in market value	($20,886,000)	$34,708,000
Total contributions (members and UNB)	$19,068,000	$18,808,000
Pension benefits	($17,804,000)	($17,370,000)
Lump sum settlements	($273,000)	($1,072,000)
Investment and administrative expenses	($1,577,000)	($1,473,000)
NET ASSETS, END OF YEAR	**$401,606,000**	**$423,078,000**

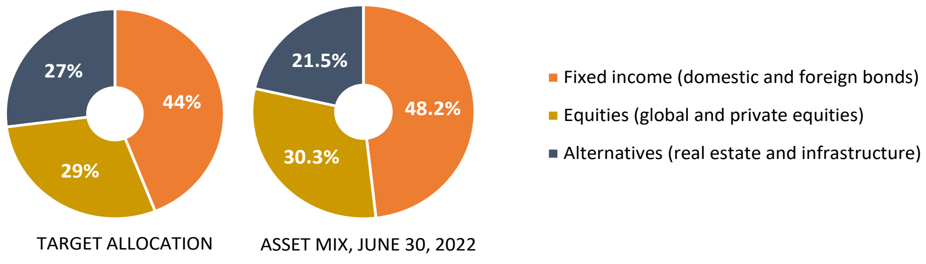
Investments

INVESTMENT RETURN

The rate of return earned on the market value of assets, from July 1, 2021 to June 30, 2022 was -4.9%. This is materially higher than the benchmark return for the fund of -8.1% for the same period, but it lags the long-term nominal rate of return of 6.28% per annum calculated by the actuary at July 1, 2022 for the Plan's asset mix.

ASSET ALLOCATION

Here is how the pension fund assets were invested as at June 30, 2022, compared to the target asset allocation last revised and approved by the Board of Trustees in June 2022.



Funding status

FUNDING POLICY

The Funding Policy is a key governing document. It sets the funding objectives and the conditions under which COLA 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/pension under *Understand your plan's governance*.

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, 2022.

Funded Ratios as at July 1, 2022

	Open Group Funded Ratio	Termination Value Funded Ratio
VALUE OF ASSETS	$485,871,000	$401,606,000
LIABILITY	$448,195,000	$448,195,000
FUNDED RATIO	**108.4%**	**89.6%**
PREVIOUS YEAR (JULY 2021)	117.0%	97.5%

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, 2022	July 1, 2021	Target	Met
PRIMARY RISK MANAGEMENT GOAL	**98.0%**	95.9%	95.0%	👍
SECONDARY RISK MANAGEMENT GOAL	**83.7%**	81.2%	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% is achieved at a valuation date, COLA may, if funded ratios allow, be granted for the following January 1st. This target was achieved at July 1, 2022.

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 had to be met at conversion, and when major changes are subsequently made. This target was also achieved at July 1, 2022.

The Plan has met both risk management tests as of July 1, 2022. The Board is hopeful that with its continued focus on risk management, the Plan will be in a position to continue to meet the primary and secondary risk management goals in the future and therefore be in a position to continue to provide COLA.

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 of 95.0% was met at July 1, 2022, which means that COLA could be granted effective January 1, 2023. A memo dated April 1, 2023 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 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, 2022 were as follows:

The day-to-day administration is conducted by the People & Culture Department of UNB.

Partners and advisors in the management of the Plan

Actuary and Investment Consulting	WTW
Custodian	Vestcor Inc.
Auditor	KPMG LLP
Legal Counsel	McInnes Cooper
Pension Administration	LifeWorks
Investment Manager	Vestcor Inc.

For more information

The detailed Financial Statements and Actuarial Valuation Reports are available at www.unb.ca/hr/pension under *Financial Information*.