

7 December 2009

AUNBT Pension Committee – Report on the Pension Plan

Background. As reported at the annual general meeting last spring, the pension fund lost 13% of its value in the year 2008.¹ This fact, together with the general contraction in world economic activity that began in fall 2007 and persists, caused a significant long-term problem for our pension plan and every other pension plan in Canada and other countries. In particular the cost of our plan would rise sharply in the next actuarial valuation, and because under new provincial regulations valuations must now be reported annually to the Superintendent of Pensions, there is a high probability that the Rate Stabilization Account would be exhausted before the end of the 6-year period (2007-2013) of the Improvement Program. In order to address this, on the advice of the plan actuary Robert Blais of the firm of Towers Perrin, the plan's Board of Trustees and its sponsors, AUNBT and UNB, together agreed to seek approval from the Superintendent of Pensions to consolidate the several amortization periods for past unfunded actuarial liabilities into a single 15-year period, commencing with the next actuarial valuation (the Fresh Start approach). It was estimated that this would save more than 1% on the required contribution rate in the next valuation).

The Special Nature of Our Plan. The plan is a joint, 50-50 plan established under a Trust Agreement in which the employer's contributions are fixed and as a result the sponsors are jointly responsible for actuarial unfunded liabilities. This plan falls under section 37 of the Regulations under the Pension Benefits Act, as a 'fixed contribution plan.' It is the only plan of its type in New Brunswick.² As such, our legal advice is that the Fresh Start approach is permissible for our plan under the existing regulations and a Fresh Start for it would not constitute a legal precedent for other plans.

Discussions with NB Government Officials. The plan actuary explained our proposal to the Superintendent in early May. Two months later we learned that the Superintendent was opposed. The reasons conveyed were, in our view, either of a political nature (rather than financial or legal), or inaccurate. In response, a joint AUNBT/UNB/Trustees discussion group consisting of Norm Betts, Larry Guitard, Dan Murray and Jon Thompson held series of meetings with deputy ministers, senior advisors to the Premier, and ministers to explain the special nature of our pension plan and the Fresh Start approach. The result was ministerial approval for discussions with the Superintendent to begin anew.

¹ In 2008 UNB's endowment funds lost over 16%, the pension funds at McGill, Toronto and York lost 20%, 30% and 30%, respectively, and the Caisse de Depot (the largest pension fund in Canada) lost over 25%.

² The Universities Academic Pension Plan in Alberta is very similar to our plan (www.uapp.ca).

New Valuation. The Board of Trustees commissioned Towers Perrin to perform a valuation based on data of 1 July 2009 (the previous valuation used data of 31 December 2006). The plan actuary advised that because of recent losses in fund value and the changed international economic circumstances, more conservative assumptions would be used. The most significant would be a reduction in the long-term discount rate from the current 6.75% to 6.5%; in addition other assumption changes would be incorporated, such as updated mortality tables. The new valuation was presented to the Board of Trustees on November 27 and a motion to accept it was passed. This valuation incorporates the Fresh Start. It will be submitted to the Office of the Superintendent for approval.

The new valuation shows that at 1 July 2009, the actuarial value of the plan's assets was \$171.8M and the unfunded actuarial liability was \$61.6M (the corresponding figures at 31 December 2006 were \$140.5M and \$42.5M, respectively).

The financial significance of the Fresh Start can be seen in the comparison of the required contribution rates (expressed as a percentage of salary) for each party (AUNBT members and UNB):

with the Fresh Start, the contribution rate for each party would be **10.61%**;

without the Fresh Start, the contribution rate for each party would be **11.87%**.

Currently (under the valuation of 31 December 2006) the contribution rate is 10.05%.

For at least the next year, the Rate Stabilization Account has sufficient funds to cover the increase, with or without approval of the Fresh Start by the Office of the Superintendent, so that the rate experienced by each member will continue to be 10.05% for the coming one-year valuation period. In the event approval is denied, the decision may be appealed to the Labour and Employment Board.

Members of the AUNBT Pension Committee: Barbara Trenholm, Jula Hughes, Gopalan Srinivasan, Rick McGaw, Jack Vanderlinde, Jon Thompson (Chair).

AUNBT members of the pension plan's Board of Trustees: Norm Betts (Co-Chair), Bob Maher, David Bell, Evelyn Richards, Gopalan Srinivasan.

UNB members of the pension plan's Board of Trustees: Larry Guitard (Co-Chair), Chris Callbeck, Peter McDougall, Barbara Cooper.

J. Thompson