

PSSA Echo

PUBLIC SERVICE SUPERANNUATION ACT

This newsletter is a joint publication of the New Brunswick Investment Management Corporation and Pensions and Employee Benefits, Office of Human Resources

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NB Investment Management Corp.
Société de gestion des placements NB



Background

The *Public Service Superannuation Act (PSSA)* came into effect in 1933 under the responsibility of the Province of New Brunswick. The PSSA currently covers approximately 32,000 members of the public service.

In the early 1990s, certain of the Provinces legislated pension plans had large unfunded liabilities. At that time, the Province set the goal of having the Public Service and the Teachers' pension plans fully funded within twenty-five years. A fully-funded position means that there are sufficient assets in a plan to cover all projected payments that must be made to current and future pensioners.

The Province chose to implement measures to reduce the shortfall. This included the introduction of equity investments to diversify the investment portfolio. The New Brunswick Investment Management Corporation (NBIMC) was formed in 1996 to provide the additional investment expertise that was required to earn the potentially higher equity investment returns while managing the higher risk associated with those investments in a cost effective manner.

Plan Governance

The Province of New Brunswick is the **Plan Sponsor** for the PSSA. The Minister of Finance, as Chair of the Board of Management, is both the **Plan Governor and Plan Administrator**. However, the day to day administration of the plan is assigned to the Pensions and Employee Benefits, Office of Human Resources.

Each New Brunswick legislated pension plan undergoes a periodic actuarial valuation on a going concern basis under the direction of an **Actuarial Valuation Committee**. This Committee is made up of senior level public servants who are supported by a professionally accredited **Actuary**. An Actuary is an expert in the field of pensions who can analyze the pensions and provide expert opinion. The valuation process determines long-term funding requirements for each pension plan.

NBIMC is both the **Trustee** for the assets of the legislated pension plans and their **independent investment manager**. As Trustee, NBIMC is responsible for developing and implementing an investment policy within a risk-controlled framework. NBIMC operates in a fiduciary role, at arm's length from government. Investment decisions are made on a purely commercial basis in the best interests of the PSSA, using sound business practice.

Plan Valuation

The most recent actuarial valuation for the PSSA was prepared as of April 1, 2010. This valuation indicated a funding level of 87.1% which has improved subsequently because of the positive investment performance for the year ending March 31, 2011.

The nominal investment return assumption (including inflation) used in the 2010 valuation remains unchanged at 6.6%. The required investment return on an inflation-adjusted basis (the "real return") was also left unchanged at 4.0%.

It is important to note that the PSSA is an indexed plan, meaning that future benefits are adjusted for changes in inflation, to a maximum inflation rate of 5%. Accordingly, any change in the inflation assumption used in the plan valuation adjusts both the expectation for future benefits and the expectation for investment earnings, effectively netting this impact out in determining the size of the pension liability, and therefore the net funding position.

Questions?

Questions about your pension plan can be directed to the following:

- 1-506-453-2296 or, toll free 1-800-561-4012
- Or write to Pensions and Employee Benefits, OHR, P.O. Box 6000 Fredericton, NB E3B 5H1

More information is also available on the website: www.gnb.ca/pensions

Pensions and Employee Benefits, Office of Human Resources

Know Your Plan Administrator

Pension and Employee Benefits (PEB) develops, manages, and administers employee benefits, and separate legislated or contractual pension plans to public service employees and retirees under Parts I, II, III and IV of the New Brunswick Public Service, as well as some quasi-public organizations.

Pension Plan Members have the opportunity to request through PEB, services such as the calculation of future benefits, purchase of pensionable service, reciprocal transfers, and many more. This can be done by application forms; in person, by phone or online. In addition, PEB is tasked with updating governance standards and practices on all Plans as guidelines become more stringent.

PEB is a participating organization, along with six other pension administrators across Canada, in the Quantitative Service Measurement (QSM) Survey. Information generated from this survey is used as a benchmarking tool, and provides an understanding about the factors affecting pension plan costs and service standards. PEB continuously ranks as one of the lowest cost pension administrators in the QSM survey. In 2010 PEB was ranked as the second lowest cost administrator on a cost-per-individual basis.

Indexation Rate for 2011

The annual cost of living increase, or indexation, is calculated according to the average of the Consumer Price Index (CPI) for the 12-month period ending June 30th. If the average CPI is 1% or more, your pension is increased by that same percentage up to the maximum amount (*PSSA* max is 5%). If the average is **less than 1%**, your pension is not increased that year. Instead, that CPI increase is **carried forward** and added in subsequent years.

The increase from 2009 to 2010 was **less** than 1%; therefore indexation for 2011 is 0%. If the amounts of the 2011 CPI increase, plus the carried forward portion from 2010, result in an amount greater than 1%, your pension will be adjusted on January 1, 2012.

The annual rate of indexation to *PSSA* pension for the last three years is:

- 2009 = 2.17%
- 2010 = 1.65%
- 2011 = 0.0%

Changes to the Canadian Pension Plan

A Service Canada announcement was released late 2010, discussing Canada Pension Plan (CPP) benefit modifications. The new rules provide for an increase in monthly benefits for Canadians who retire later than age 65, up to age 70. Currently, monthly benefits are reduced for Canadians who retire as early as age 60. Specifics on these changes can be found at www.servicecanada.gc.ca/eng/isp/cpp/cpptoc.shtml, see *Amendments to the Canada Pension Plan*.

These modifications will **not** affect your *PSSA* pension.

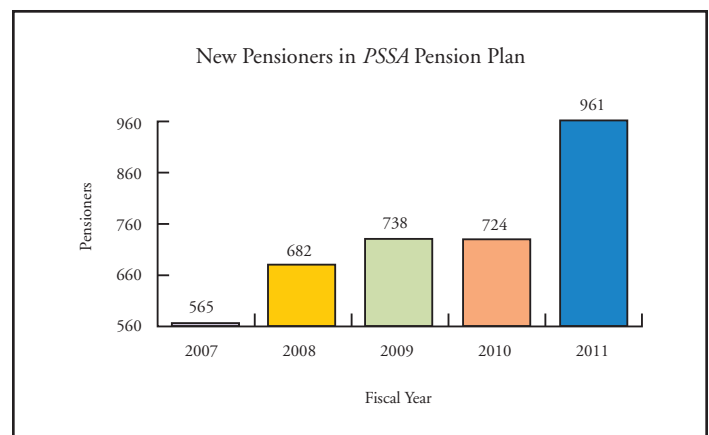
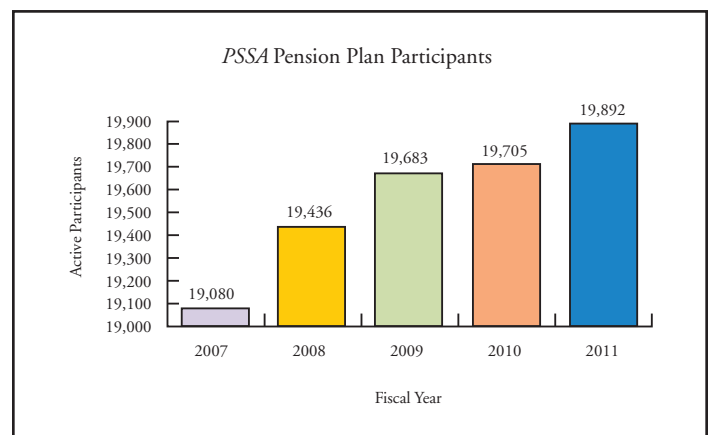
Information on Taxation

Information about the taxation of your pension benefits is available from the Canada Revenue Agency under the Individuals tab at www.cra-arc.gc.ca. Service Canada also provides information about the Canada Pension Plan and Old Age Security benefits, as well as an online Canadian retirement income calculator at www.servicecanada.gc.ca, see *Life Events/Retirement*.

PSSA Facts

- At March 31, 2011, the total number of retirees receiving a pension from the *PSSA* Pension Plan was 10,819.
- Pensions paid under the *PSSA* in the month of March 2011 alone were \$20,528,094.
- The average monthly pension paid under the *PSSA* is \$1,896.
- The average age of a pensioner at March 31, 2011 was approximately 68.54.

Total number of employee statements issued to *PSSA* participants in 2010 (Jan. 1/10 to Dec. 31/10) was 17,487.



Note: Statements are issued during the summer. In order to receive your Statement, be sure to inform your employer of any changes to your contact information.

Watch for the New *PSSA* Booklet

Did you know that your *PSSA* Pension Plan is a defined benefit plan? This means that your pension is based on a formula using your age, service and pensionable earnings.

Did you know that you need five (5) years of pensionable service to qualify for a pension?

Did you know that you are required to apply for your pension?

For more information about your *PSSA* Plan and retirement options, check out the new *PSSA* Booklet at www.gnb.ca/pensions see *Pension Plans/Government Department or an Agency*.

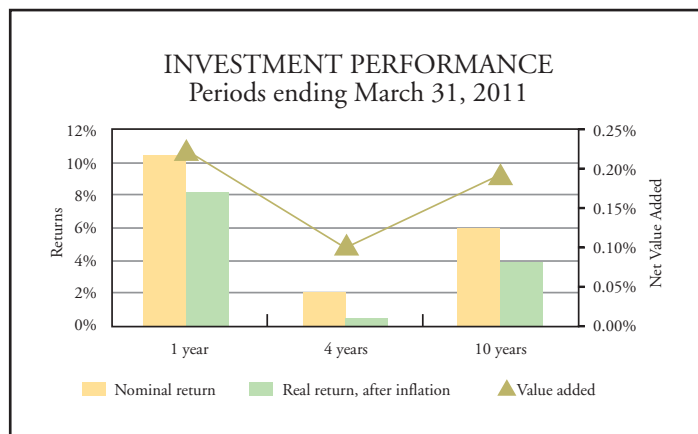
Pension Reform

It was announced through a Government of NB News Release that there will be a full review of pension plans affecting provincial public employees and retirees. This review is intended to ensure that the pension plans are sustainable and that the benefits are protected. As more information becomes available it will be added to the government website: www.gnb.ca/pensions.

Investment Report from New Brunswick Investment Management Corporation (NBIMC)

Adding Value in Fiscal 2010-11

The fiscal year started with sovereign debt and banking concerns in Europe, an armed conflict on the Korean peninsula and continued concerns about a possible double dip recession due to weak housing markets and slow job growth in North America. However, the overall investment mood changed significantly in the fall of 2010 as government policies focused on supporting their economies and corporate earnings reports demonstrated strong revenue and earnings growth.

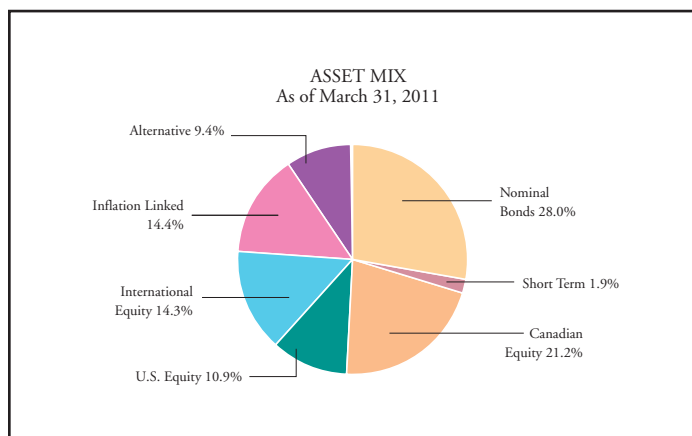


The gross nominal rate of return for the *PSSA* for the year ending March 31, 2011 was 10.42%. The longer term annualized return was 2.13% for the four-year period, 6.01% for the ten-year period, and 6.76% since NBIMC's inception in 1996.

The annualized real return (after adjusting for inflation) since inception of NBIMC is now 4.73%. This real return exceeds the 4.0% real return that the independent Actuary believes is required to achieve the Provinces' long-term goal of a fully funded pension plan.

Investing Today for Tomorrow's Benefits

It is important to remember that defined benefit pension plans are structured to obtain a significant portion of their ultimate pension payments from investment returns in the financial markets.

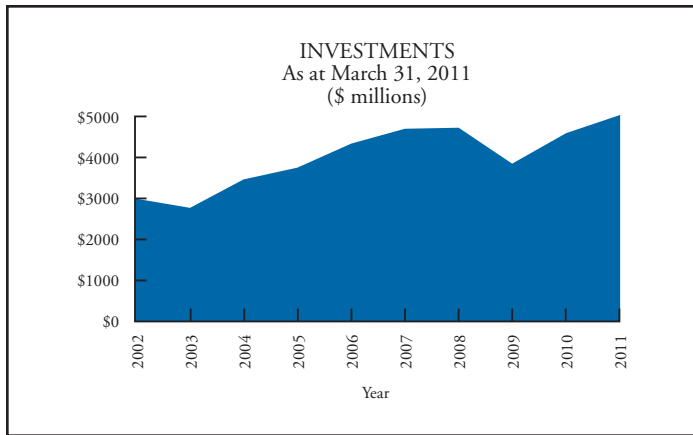


Achieving these returns requires diversification into asset classes capable of delivering long-term performance in excess of what is required by the plan actuary with the least amount of risk.

The development of the asset mix for the plan is highly dependent on the plan's actuarial liability profile. During the year we conducted a full Asset Liability study based on the actuarial valuation dated April 1, 2009 and determined that no change was necessary to the current asset mix.

Since NBIMC's inception, the overall investment program has provided a 6.76% average annual (nominal) return to the *PSSA*. This long-term annualized return means that NBIMC has added over \$3.2 billion of net investment returns to the *PSSA*.

Financial Strength and Liquidity



Net assets under management increased to \$5.030 billion from \$4.587 billion in the prior year. This increase in assets resulted from \$479 million in net investment earnings, \$63 million in special funding payments from the plan's sponsor, and net pension payouts of \$78 million. Approximately \$18 million of investment earnings was added this year through active portfolio management activities versus their benchmarks, which provided the funds with approximately \$11 million in additional net earnings after covering the combined investment costs of \$7.3 million for NBIMC and third party service providers.

The net pension payouts include a combination of cash inflows from both employers and active plan members as well as cash outflows for benefit payments to pensioners.

The annual employer and employee contributions, along with the strong liquidity provided by the diversified mix of investment assets provide the plan with the ability to make long-term retirement payments.

For example the liquidity provided by the **\$5.030 billion** investment portfolio at March 31, 2011, compared with last year's net cash flow obligation of **\$78.4 million**, allows the PSSA to make pension payments for many years into the future while at the same time providing the portfolio with the ability to grow in value as investment opportunities arise in the future. The liquidity position is also enhanced by having both the nominal bond portfolio and short-term debt portfolio focused primarily on top quality Canadian government securities.

Looking Ahead

Economic growth continues to recover at a slower rate than after past recessions, however with a new concern from more divergent global government and central bank actions. The United Kingdom has decided to immediately address their fiscal deficit situation while the European Central Bank has been focused of late on potential interest rate increases to address inflation concerns. Both of these actions have the potential of constricting future economic growth in Europe. On the other hand, the United States continues to run both large deficits and a very accommodative monetary policy. These actions have given rise to concerns about continued currency weakness and accelerating inflationary pressures in the near future. Emerging Asian markets appear to be overheated, while Japan has a long road of reconstruction ahead.

Using a disciplined risk management focus for our investment management activities will continue to be a key element in ensuring stability in both pension plan contributions and benefits. We will continue to closely adhere to our investment policies and procedures and remain confident that our strategy, people and processes can meet the **long-term** goals of our stakeholders.

More information about NBIMC can be found on our website at www.nbimc.com. Our Annual Report, under the Publications tab, explains our investment management services and results in more detail.

DISCLAIMER: This publication is intended to provide information about the public service pension plan under the PSSA and does not confer any rights or benefits. If there is a discrepancy between the information contained herein and the relevant Acts and Regulations, the latter will prevail.