



NB Investment Management Corp.
Société de gestion des placements NB



TPA Echo

(TEACHERS' PENSION ACT)

A joint publication from the NB Investment Management Corporation and the Compensation and Employee Benefits Division, Office of Human Resources

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New Brunswick Investment Management Corporation

The Corporation's highlights for fiscal 2005-06:

- Exceeded both the nominal and real return actuarial targets,
- Continued to add relative value, after covering all expenses, to the portfolios through active investment management,
- Broadened the scope of our internal investment management activities,
- Established an internal audit relationship with an independent service provider, and
- Finalized our recent asset diversification work, which reduces the implied risk in the overall plan portfolios.

Who are the stakeholders in your pension plan?

1. **The plan** members including actively working and contributing members, deferred plan members and retired members who are drawing a pension.
2. **The plan sponsor / employer** who is responsible for the overall pension plan including benefits policy and the funding of the pension plan.
3. **The plan administrator** who implements the plan benefits policy, maintains official benefit records, pays eligible pensions and performs the day-to-day communications with the members.
4. **The fund trustee** who sets the investment policy and oversees the investment of the funds.
5. **The fund's investment managers** who are responsible for the investment of the pension funds.

The New Brunswick Investment Management Corporation (NBIMC) acts in the capacity of the latter two stakeholder roles.

Recognition of our First Decade of Operation (1996 – 2006)

Over the past decade NBIMC has grown from a relatively small group of 13 employees managing \$3.9 billion across four asset classes into an experienced institutional pension fund manager with 36 employees, who are managing over eight billion dollars (\$8.1B) across fourteen different asset classes. Investment returns over the decade have been a very respectable 8.42% per annum in nominal return terms and 6.25% per annum in real (inflation adjusted) return terms. Both of these annual return measures are well ahead of the annual actuarial returns required by your plan.

By remaining true to our long-term investment approach we have been able to build a very respectable track record against our peer public sector pension plans and diversified pool pension fund managers. NBIMC has added approximately \$4.7 billion in investment returns since inception, which has included periods of good overall market conditions as well as periods that were significantly more challenging.

Over our first ten years we have been able to provide very respectable investment returns by operating within our legislative mandate. This performance, in combination with the support of the plan sponsor, has helped to significantly improve the funding status of the pension funds under management.

www.nbimc.com
www.gnb.ca/0163/pension

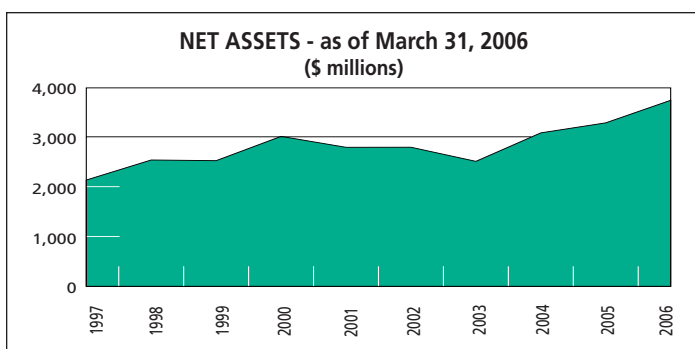
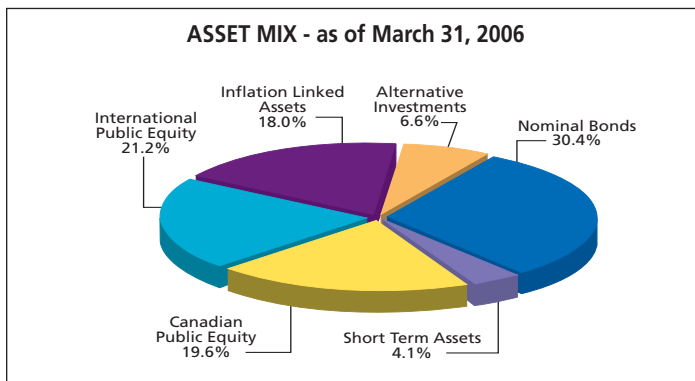
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TEACHERS' PENSION PLAN

Investment Highlights – To March 31, 2006

Asset Mix

The asset mix is the proportion of your fund invested in each type of asset on March 31, 2006.

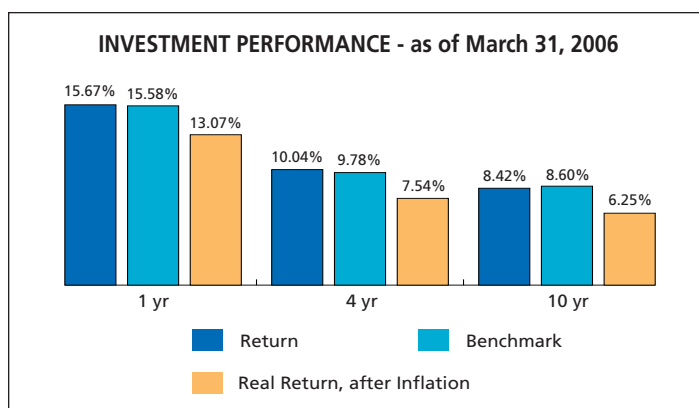


Net Assets at March 31, 2006 stood at \$3,732.3 million which is \$452.4 million more than the previous year.

Investment Results to March 31, 2006

Returns for the year were excellent. The most significant contributor to the funds' nominal performance during the year was the strong performance in public equity markets. Japan, Europe and Canadian equity markets all posted strong double digit returns. Real estate and infrastructure also produced excellent returns as our initial investments made in this asset class over the past few years have started to both distribute good interim cash flows and also grow in value. Fixed income investments provided a solid contribution, while commodities and absolute strategies contributed marginally. The earlier investments in our external private equity portfolio have also begun to realize good returns.

The time-weighted rate of return for the twelve-month period was 15.67% and the average return for the past 4 years was 10.04% and for the past 10 years was 8.42%. As well, the Real Return after inflation for the past ten years has been 6.25%, well in excess of the rate required in the funding plan.



Compensation and Employee Benefits Division Office of Human Resources

Your TPA Pension Plan: A secure, well-funded pension plan

The 'funded status' of a defined benefit pension plan refers to the ratio of assets to liabilities. The assets of the *TPA*, according to the most recent triennial actuarial valuation at April 1, 2006, were \$3.7 billion while its liabilities were \$3.9 billion resulting in a funded status of 95.6%.

A common misconception plan participants hold with respect to funding of a defined benefit pension plan such as the *TPA* is that the **value** of the pension benefit at retirement is derived largely from the contributions they pay into the fund over their careers. In reality, only about 20% of the value of one's pension at retirement comes from Employee contributions. The other 80% comes from Employer contributions and the investment returns of the Fund.

For the fiscal year 2005-06, *TPA* participants contributed a total of \$38.16 million while the Employer's share of the 'current service cost'

(CSC) was \$34.76 million. Note that the Employer does not pay contributions with respect to an employee's election to purchase periods of 'prior service'. In addition to the amount contributed to fund the CSC, the Employer is also making 'special payments', as required by legislation, to ensure the Plan is well funded. The Employer contributed \$75.32 million in special payments in 2005-06.

The good news for *TPA* participants is that, since the Minister of Finance is the 'Plan Governor' and fully assumes the risk for any unfunded liability under the current legislation, plan participants can be confident that the pension promise will be fulfilled. This arrangement differs from a 'jointly governed' pension plan where the element of risk associated with insufficient funds to cover promised benefits, is shared between the Employer and the Plan participants (usually 50/50). This joint responsibility often means, when the Plan is in a deficit position (not fully funded), that Plan participants, along with the Employer, must assume responsibility for a portion of any unfunded liability.

Understanding the value of your TPA pension

It is important to understand that the contributions you make to the TPA as a plan participant only account for a small portion of the value of your pension at retirement. To put this in perspective, consider the following:

For illustrative purposes only-

- Retirement at December 31, 2006 (age 57) with 30 years pensionable service
- Best 5-year average salary \$54,000
- Employee contributions plus interest (from 1977 to 2006)* = \$125,431
- Annual pension (lifetime + bridge) from age 57 to 65 = \$32,400
- Annual pension (lifetime) from age 65 = \$23,740
- Annual survivor pension (50% of lifetime) upon death of contributor = \$11,870
- Commuted value of pension at retirement = \$562,700

The real value of your TPA pension is often overlooked or simply not well understood. Using the example above, the cost of purchasing an annuity at age 57, which would provide similar benefits as the TPA (except for the indexation rate which must reflect the current economic reality and market conditions in annuity pricing at time of purchase), would be:

- \$620,461 with a flat indexation provision of 2% yearly or;
- \$768,302 with a flat indexation provision of 3.5% yearly

If one had purchased an annuity 20 years earlier, that is, when the individual was 37 years old, then the cost to purchase would have reflected economic realities of the time, as well as the investment horizon (i.e. investment earnings before annuity becomes payable). Using the same example again, the cost to purchase an annuity at age 37 would have been:

- \$264,508 with a 2% flat indexation rate provision or;
- \$325,154 with a 3.5% flat indexation provision

Vested TPA members (i.e. those with 5 or more years of pensionable service to their credit under the Plan) should carefully evaluate their pension options at retirement to ensure that they maximize their benefit. The option, for a vested member, to take a refund of Employee contributions (plus accumulated interest) is not recommended as it offers the least value and does not ensure retirement income in later years.

For example, the commuted value of a contributor's pension using the scenario above but with an average salary of \$60,000 is \$638,700. This, in turn, translates into a yearly pension benefit of \$36,000 to age 65 and \$27,340 from age 65, when the TPA pension is integrated with the Canada Pension Plan (CPP) benefit.

Do you have periods of prior service that could be purchased under the TPA?

Purchasing **eligible** periods of service under the TPA is cost effective and an excellent way to maximize your future retirement pension.

A number of complex rules govern what periods and types of 'prior service' that can be purchased under a pension plan. The rules governing

* Best estimate as salary increases are highly individualized. In this illustration, it is assumed the employee's initial annual salary was \$12,000 in 1977, \$30,000 in 1983, \$42,000 in 1990, \$48,000 in 1997 and \$58,000 in 2004.

pension buybacks are set by the Canada Revenue Agency, through the federal *Income Tax Act (ITA)*. Pension plan administrators must comply with the ITA and strict controls are in place to ensure that they do.

The rules governing periods of service performed before 1992 are different than those for periods of service performed after 1991. Income tax implications of buying back service vary according to your specific set of circumstances. Therefore, you should investigate the tax implications for your particular situation by consulting officials at the Canada Revenue Agency. A publication titled "RRSP's and other Registered Plans for Retirement" is available at the following address:

<http://www.cra-arc.gc.ca/E/pub/tg/t4040/t4040-05e.pdf>

For general tax inquiries, please call the Canada Revenue Agency's toll free number at 1-800-959-8281.

You can also consult a benefits counselor at the Compensation and Employee Benefits Division by dialing 1-800-561-4012 (toll free within NB) or 453-2296 (Fredericton area).

Pensioners: Have you notified us of your change of address?

If you are in receipt of a pension benefit or have terminated employment and will become eligible for a benefit in the future, please remember to notify us of a change of address. This will ensure that important information, such as your annual T4 slip and this publication, is mailed to the appropriate address.

Annual rate of indexation to TPA pensions for the last three years:

- 2005 = 1.72%
- 2006 = 2.08%
- 2007 = 2.48%

Note: Maximum indexation for the TPA is 4.75 percent per year.

TPA Facts...

- At March 31, 2006, a total of 9,467 employees were TPA participants (exclusive of retirees).
- In this fiscal year (2005-06), a total of 398 new pensioners were added to the payroll (includes survivor and dependant pensions as well as previously deferred pensioners).
- At March 31, 2006, a total of 7,316 retirees were drawing their pension from the TPA.
 - The average age of pensioners was 66.27
 - The average monthly pension was \$2,411
- Pensions paid under the TPA for the **month** of March 2006 alone totaled \$17 million. Pensions are paid every 24th of the month (except for the month of December when the benefit is paid earlier).
- A total of 7,762 'Employee Statement of Benefits' were issued to TPA participants in 2006 for the period from September 1, 2005 to August 31, 2006 (Statements of benefits are issued to plan members who have paid pension contributions during the statement period).