TPA – Some Historical Perspective May 21, 2013

During the past several months, much has been written about the "Shared-Risk Model" promoted by the New Brunswick Government through the Task Force on Sustaining Pensions. Much of this writing has suggested that "union members and pension officials in New Brunswick sought and enacted a solution to providing real pension benefits that would be economically sound under 21st century conditions". This suggests that all unions in NB have bought into the concept of transforming current defined-benefit pension plans, all of which have a different history and structure, into a modified Dutch based model. This could not be farther from the truth.

In fact, the May 2012 announcement involved only two of eleven public sector pension plans that exist in NB - Pension Plan for Certain Bargaining Employees (CBE) of New Brunswick Hospitals, and Pension Plan for Canadian Union of Public Employees (CUPE) of NB Hospitals. Both of these plans are negotiated pension plans that were seriously underfunded and in need of attention.

The Teachers' Pension (TPA) Plan, along with the Public Service Superannuation (PSSA) Plan, is a legislated pension plan in which the Government of New Brunswick is the guarantor and sponsor of the plan. The funds of the Teachers' Pension Plan, approx. $4 billion, are managed by the New Brunswick Investment Management Corporation (NBIMC), which has produced a real rate of return over the past 16 years of approx. 4.56% per year. Members of the TPA plan, along with the employer make matching contributions that are designed to pay for the "current service cost" of the service earned by members.

Many current teachers will remember that teachers faced a pension crisis in 1990, when the government of that day advised teachers that the TPA was seriously underfunded (approx. $900,000 million) and needed to be fixed. The teacher organizations argued, and eventually, convinced government that this debt belonged to the Province of NB since the government had not accounted for contributions from teachers until a fund was formed in 1976. Over the years from the inception of the plan in the early 1900's until the fund was formed, pension contributions from teachers had been taken into and pension were paid out of the general revenue of the province. The government agreed to amortize this debt over a 25-year period by making extra contributions to the plan yearly.

In addition to this, teachers wanted to make sure that no new debt would be accumulated in the plan going forward, so the amount being paid in contributions was examined. The plan actuary advised that both teachers and employer needed to increased contributions to cover the actual cost of a year of pension service, called current service cost. As a result, contributions rates were increased to 7.3% up to YMPE (Yearly Maximum Pensionable Earnings) and 9.0% above, which have remained constant until the present.

The teacher organizations in NB (NBTF, NBTA & AEFNB) believe that these steps were critically important to putting the Teachers' Pension Plan on solid financial footing. At the last actuarial valuation, the TPA had a funding level of 89.8% on a fund of approx. 4 billion dollars. This represents the highest funding level of any public plan in NB and one of the best funded pension plans in Canada. All of this has occurred despite two of the worst economic

downturns in the financial markets that we have ever witnessed.

As the pension review continues to unfold, teachers should rest assured that your leadership is staying abreast of developments. We stand ready to take the necessary steps to defend the status of the Teachers' Pension Plan and protect the benefits that we have worked to sustain over the years.