

Funded Status of the Teachers’ Pension Plan (“TPP” or the “Plan”)

The Teachers’ Pension Plan Corporation (“TPPC”) was established on August 31, 2016 through the Joint Sponsorship Agreement between the Government of Newfoundland and Labrador (“Government”) and the Newfoundland and Labrador Teachers’ Association (“NLTA”). Full responsibility for the TPP and investment activity of the Plan has been transferred from Government to the TPPC. The total assets of the TPP include marketable investments and the non-marketable promissory note issued by government in accordance with the 2015 Pension Reform Agreement. The TPPC has collaborated with the NLTA in providing the following update on the funded status of the TPP and the recent investment performance of the Plan.

FUNDING STATUS OF THE TPP

The information below is provided in accordance with the following resolution which was carried at the NLTA’s 2009 BGM:

That the NLTA provide annually to the membership the estimated position of the funding of the Teachers’ Pension Plan, such to include the estimated percentage of funding of the plan and the return on investments for the previous year.

BACKGROUND

Currently, an actuarial valuation of the TPP is conducted every three years, as per legislative requirements (the triennial valuation). Such a valuation involves a detailed analysis of all the liabilities of the Plan (i.e. the present value of pension benefits owing to every active and retired teacher, based on projected final average earnings) in comparison to the assets in the Plan. This analysis requires a number of assumptions re future experience of the Plan; e.g. projected fund earnings on investments, inflation rates, salary increases, life expectancy rates, age of retirement, etc. The actuarial valuation then provides the “funded ratio” of the Plan, which is simply the Plan’s assets expressed as a percentage of the total liabilities.

The latest triennial actuarial valuation of the TPP was completed effective as at August 31, 2018. An actuarial valuation was completed at August 31, 2020 for the purpose of monitoring the position of the pension plan. Between actuarial valuations, an estimate of the funded level of the Plan is possible from the year-end financial statements of the TPP. Since August 31, 2016, these statements are prepared by management and audited by the TPPC’s auditors as at December 31 of each year and include the value of the Plan at December 31 and an estimate of the liabilities based on a projection from the latest actuarial valuation.

FUNDED STATUS OF THE TPP AND RETURN ON ASSETS

As of the most recent triennial valuation date at August 31, 2018, the funded status of the TPP was 106.2% (including the promissory note).

The estimated funded ratio at December 31, 2020 including the remaining value of the promissory note was 114.9%.

The return on investments for the year ending December 31, 2020 was 13.6%, gross of investment management fees.

A new strategic long-term asset mix was adopted by the Board of Directors in December 2020 and is being implemented based on an asset liability study designed to invest the assets in a way that balances risk and return and ensures the long-term sustainability of the Plan.

PRIOR YEARS

The following tables summarize the historical funding level of the TPP since August 31, 2006 and the investment performance of the Plan since 2008.

Of particular note is the infusion of \$1.953 B into the TPP in 2006 which brought the funded ratio from 26.4% in August 2003 to 82.2% in August 2006. The market crash of 2008 and growing liabilities decreased the funding ratio to 64.3% by August 2009’s valuation and the funded ratio further declined to 52.5% by August 2012’s valuation.

The Plan had very positive investment returns in 2009, 2010, 2012, 2013 and 2014 but the Plan’s liabilities also increased significantly as a result of the increased number of retirees and longer life expectancy. This resulted in a funding ratio at December 31, 2014 of 63.7%.

It was within this backdrop that the TPP Reform Agreement was reached with Government in April 2015. That Agreement and the accompanying legislation, which created joint trusteeship, a funding policy and the NL Teachers’ Pension Plan Corporation, are part of a plan designed to achieve stability, sustainability and 100% funding over the next 30 years.

Teachers’ Pension Plan – Funding Level (in thousands of dollars)											
	AUG. 31, 2006 ¹	AUG. 31, 2009 ¹	AUG. 31, 2012 ¹	AUG. 31, 2015 ¹	DEC. 31, 2015 ²	DEC. 31, 2016 ³	DEC. 31, 2017 ³	AUG. 31, 2018 ¹	DEC. 31, 2018 ³	DEC. 31, 2019 ³	DEC. 31, 2020 ³
MARKET VALUE OF ASSETS PROMISSORY NOTE (PV) TOTAL ASSETS	2,750,940	2,380,380	2,286,180	3,001,390	3,001,946	3,187,197 1,838,448 5,025,645	3,467,641 1,813,482 5,281,123	3,622,230 1,787,020 5,409,250	3,421,765 1,787,019 5,208,784	3,831,775 1,758,968 5,590,743	4,249,822 1,729,234 5,979,056
ACTUARIAL LIABILITY	3,344,950	3,702,190	4,354,640	4,616,940	4,788,035 ⁴	5,116,380 ⁴	5,102,741 ⁴	5,092,650	5,120,662 ⁴	5,207,603 ⁴	5,204,434 ⁴
SURPLUS (UNFUNDED LIABILITY)	(594,010)	(1,321,810)	(2,068,460)	(1,615,550)	(1,786,089) ⁴	(90,735) ⁴	178,382 ⁴	316,600	88,122 ⁴	383,140 ⁴	774,622 ⁴
FUNDED RATIO	82.2%	64.3%	52.5%	65.0%	62.7%	98.2%	103.5%	106.2%	101.7%	107.4%	114.9%

¹ Source: TPP Actuarial Valuation (Note: The next actuarial valuation of the TPP will be as of Aug. 31, 2021)

² Source: Unaudited Year-end Financial Statements (Government of NL)

³ Source: Audited Year-end Financial Statements (TPPC)

⁴ Estimated

TPP – Investment Performance (Gross of investment management fees)												
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
–21.0%	8.9%	11.6%	–4.2%	10.8%	22.4%	12.0%	7.3%	7.3%	11.3%	0.9%	14.4%	13.6%

Annual updates on funded ratio and investment performance will continue to be provided to teachers each year as per the BGM resolution.