N.B. PIPE TRADES
SHARED RISK PLAN

FUNDING POLICY

Effective January 1, 2013

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SECTION 1
PURPOSE OF THE PLAN AND FUNDING POLICY

The purpose of the N.B. Pipe Trades Shared Risk Plan (the "**Plan**") is to provide secure pension benefits to members and former members (collectively "**Members**") of the Plan, not with an absolute guarantee, but rather with a risk focused management approach delivering a high degree of certainty that base benefits can be met in the vast majority of potential future economic scenarios.

The primary focus is to provide a highly secure lifetime pension at normal retirement age. However, the intention is that additional benefits may be provided depending on the financial performance of the Plan. Benefit objectives are discussed in Section 2.

The Board of Trustees is comprised of an equal number of representatives from the Employers (the "**Employer Trustees**") and the Unions (the "**Union Trustees**"), and will be collectively referred to as the "Board of Trustees" in this document. The Funding Policy is the tool used by the Board of Trustees to manage the risks inherent in a shared risk plan. The Funding Policy provides guidance and rules regarding decisions that must, or can, be made by the Board of Trustees around funding levels, contributions and benefits.

A shared risk plan is based on the principle that the management of risks for a pension plan over time can best be achieved through actions on both sides of the balance sheet (i.e., liabilities and assets). This Funding Policy describes the timing and the actions that the Board of Trustees must take, or consider, as applicable, based on the results of the Funding Policy actuarial valuation of the Plan and the application of the required risk management procedures to the Plan.

In addition, the Board of Trustees must regularly monitor the economic, demographic and pension environments and make adjustments, where allowed, or provide recommendations as and when these are necessary to maintain the Funding Policy as current in a changing world.

Capitalized terms used in this Funding Policy that are not defined herein have the meaning given to such terms in the Plan.

SECTION 2
BENEFIT OBJECTIVES

Prior to the conversion to a shared risk plan, the N.B. Pipe Trades Pension Plan (the "**Predecessor Plan**") provided defined benefits based on a percentage of amounts contributed by the Member and by the Employer on behalf of the Member and included contingent indexing based on returns in excess of an investment return threshold.

The primary benefit objective for the Plan is to deliver benefits that closely replicate, to the extent possible, the benefits provided under the Predecessor Plan prior to conversion, including contingent indexing.

The contingent indexing in the Plan as it existed prior to the Conversion Date shall continue to be contingent indexing after the Conversion Date, but with the mechanism to be applied for determining such contingent indexing being amended in order to comply with the Enabling Legislation for Shared Risk Plans.

Since indexing was never guaranteed in the Predecessor Plan, the funding and risk management framework does not have to be established pursuant to the Enabling Legislation which mandates that an appropriate allocation be made with the required contribution formula to accrue additional funds such that there is a reasonable expectation (not guaranteed) that cost of living adjustments ("**COLA**") can be granted. Nonetheless, the Plan has been designed such that the probability and level of indexing contingent in the Plan is similar, but not identical, to the probability and level of the contingent indexing arrangement in the Predecessor Plan.

The nature of a shared risk plan is such that these objectives are not guaranteed. However, contributions have been set at a level such that there is a good chance of delivering on the primary benefit objective, if there is a reasonable investment performance.

None of the above are guarantees. These benefit objectives can only be met if the contributions and Plan experience, most importantly investment performance, allow this to happen. However, the above provide guidance on the benefit objectives that underlie the Plan design.

This Section 2 only provides a brief summary of the main intended benefit provisions payable upon retirement. In case of discrepancy with the Plan text, the terms of the Plan text will prevail.

SECTION 3
RISK MANAGEMENT

The Plan was designed to achieve or exceed the risk management goals prescribed under Regulation 2012-75 (the "**Regulations**") to the New Brunswick *Pension Benefits Act* (the "**Act**") (the Regulations and the Act are collectively referred to as the "**PBA**"). Certain procedures were developed to test whether these goals can be achieved given the contribution rules and benefits defined in the Plan. These goals and procedures are described separately below.

GOALS

The primary risk management goal is to achieve a minimum of 97.5% probability that base benefits will not be reduced over the following 20 years.

The goal is measured by taking into account the following funding management plans:

1. The funding deficit recovery plan except for reduction in the past or future base benefits, and

2. The funding excess utilization plan excluding permanent benefit changes.

The funding deficit recovery plan and the funding excess utilization plan are described in Sections 5 and 6, respectively.

The PBA outlines a secondary risk management goal that applies when a pension plan converting to a shared risk plan has guaranteed indexing of benefits. There was no such guarantee in the Predecessor Plan. As such, the secondary risk management goal is not applicable to the Plan. Nonetheless, the probability and level of possible contingent indexing that existed in the Predecessor Plan has been replicated, but in a different form of contingent indexing, as described in Section 2.

For the purposes of meeting these goals, base benefits include future accruals and any contingent indexing provided based on the financial performance represented by each scenario tested. If as a result, through the testing process, a scenario allows for indexing in a given future year, then this contingent indexing amount becomes part of the base benefits that is to be protected.

PROCEDURES

The risk management goals are measured using an asset liability model with future economic scenarios developed using a stochastic process.

The model is run with at least 1,000 alternative economic scenarios over 20 years. For each of these scenarios, and for each year, the financial position of the Plan is measured. For each of these measurements, a decision consistent with the funding deficit recovery plan or the funding excess utilization plan, as applicable, is modeled with the exceptions noted under the goals above. This provides at least 20,000 observations from which to measure whether the risk management goals have been achieved.

An asset liability model using a stochastic process requires that a number of important modeling assumptions be made. These assumptions are described below:

- The economic assumptions are developed for each asset class and for key economic parameters based on a combination of past experience, current economic environment and a reasonable range of future expectations. These assumptions are reviewed annually and updated as required. They are also subject to approval by the Superintendent of Pensions (the "**Superintendent**").

- The Plan's contributing member population is assumed to be stable in each year of the projection period. As such, each departure from the Plan, for any reason, is assumed to be replaced by a new entrant. The new entrant population reflects the profile of new Plan members expected in the future based on Plan experience. If required under subsection 100.7(3) of the PBA, the assumption regarding the contribution member population may be altered.

All risk management goals were tested at January 1, 2013.

In addition, the primary risk management goal will be tested annually. The result of this test, combined with the results of the Funding Policy actuarial valuation at the same date, will determine the actions the Board of Trustees are required to take, or can consider, under the terms of this Funding Policy.

The primary risk management goal must be achieved or exceeded:

- At January 1, 2013 (i.e., the Conversion Date);

- At the date a permanent benefit change as defined in the Regulations is made;

- At the date a benefit improvement as defined in the Regulations is made; or

- At the date the contribution adjustments are fully implemented.

The definitions of Permanent Benefit Change and Benefit Improvement are as follows:

"**Permanent Benefit Change**" means a change that is intended to permanently change the formula for the calculation of the base benefits or ancillary benefits after the date of the change, including a change made in accordance with the funding excess utilization plan.

"**Benefit Improvement**" means an escalated adjustment for past periods or an increase in other ancillary benefits allowed under the Funding Policy.

SECTION 4
CONTRIBUTIONS

The contributions required by the Plan include the initial contributions and contribution adjustments as may be required by the Funding Policy.

INITIAL CONTRIBUTIONS

The initial total contribution rate is defined in Section 10 of the Plan text. The contribution rate is to increase automatically each January 1st as scheduled in Section 10 of the Plan text unless altered by:

- Contribution adjustments triggered under the Funding Policy;
- An additional reduction required under the *Income Tax Act* (Canada) (the "**ITA**") References in this Funding Policy to the ITA shall include the regulations thereunder where the context requires;
- A Permanent Benefit Change resulting in a contribution rate change as may be agreed by the Board of Trustees, and subject to the requirements of the PBA and the ITA; or
- Other changes to the Plan beyond those contemplated by this Funding Policy and only if agreed to by the Board of Trustees, and subject to the requirements of the PBA and the ITA.

CONTRIBUTION ADJUSTMENTS

Contribution adjustments may be made by the Board of Trustees based on the conditions set out below.

An aggregate contribution increase of up to 25% of the contribution rates in place at the time such increase being necessary shall be triggered by the Board of Trustees if the open group funded ratio of the Plan, as defined by the PBA, falls below 100% for two successive year ends. The amount of the increase up to the limit of 25% shall be such that the primary risk management goal is achieved and such that the open group funded ratio is at least 105% as required by the PBA. If the primary risk management goal and 105% open group funded ratio cannot be achieved, the increase shall be 25% (the maximum increase).

The contribution increase shall take effect no later than the first complete pay period that is within 12 months following the Funding Policy valuation date that triggered the need for the change (i.e., no later than 12 months after the Funding Policy valuation date). The contribution increase shall be removed at the end of the year in which the results of the previous Funding Policy valuation reveal that the open group funded ratio reaches 105% without considering the effect of the contribution increase and the primary risk management goal is met.

A reduction in contributions, other than the reversal of the contribution adjustment of up to 25%, cannot be triggered by the Board of Trustees, except in the circumstances as outlined in Section 6 of this Funding Policy and in Section 21.06 of the Plan text. Other contribution reductions, while allowed under certain circumstances under the PBA if adopted, were contemplated by the Board of Trustees, but were not adopted as part of the Funding Policy / Plan text. Similarly, the option of including temporary contributions, applicable only for the first 15 years after the applicable post-Conversion Date, also allowed under the PBA if adopted, was also contemplated by the Board of Trustees, but was not adopted as part of the Funding Policy / Plan text.

INCOME TAX ACT LIMIT

In the event that all actions contemplated under the funding excess utilization plan in Section 6 have been implemented and the eligible contributions still exceed the limit allowed under the ITA, then the contributions shall be further reduced to the limit allowed under the ITA.

SHARING OF CONTRIBUTION HOLIDAY

In the unlikely event that the ITA requires a contribution holiday, the contribution holiday would apply in equal proportion to both the Members contribution rates and the contribution rates the Employers make on the Members behalf.

EXPENSES

All expenses pertaining to the administration of the Plan shall be paid by the Plan. For the purposes of the risk management procedures, the Funding Policy discount rate is set net of all assumed Plan expenses.

INITIAL CONTRIBUTIONS ESCALATING BY 5% PER ANNUM

Normally, the amount of the initial contributions would be the same amount for each year based on either a fixed dollar amount or a fixed percentage of the earnings in respect of which contributions are made. In contrast, the Plan has initial contributions escalating by 5% per annum as both suggested and agreed to by the Pension Task Force for reasons outlined below:

- Fixed hourly contribution rates are contributed by the Member and the Employer with respect to the Member.

- In essence, these relate to the Members earnings as a fixed percentage of earnings.

- When testing the Plan for compliance with Shared Risk Plan rules, it was determined that escalating these initial contributions by using expected long-term salary increases, which would in turn mimic a fixed percentage of the earnings, the Plan exceeded the 97.5% security requirement for the Base Benefits.

- However, the Board of Trustees wanted to strengthen this for the Members' benefit, and decided to agree with the Pension Task Force's suggestion to increase the automatic escalation from proportional to salary increases to 5% per annum to assist in accomplishing this desire.

- This increased the security requirement for the Base Benefits by a significant margin compared to simply using future salary increases as a basis for such contribution increases.

SECTION 5
FUNDING DEFICIT RECOVERY PLAN

The funding deficit recovery plan must be implemented by the Board of Trustees if the open group funded ratio of the Plan falls below 100% for two successive plan year ends.

Once triggered, a report shall be provided to the Superintendent describing how the Board of Trustees is dealing with the underfunding of the Plan. In addition, Plan Members, the Employers and the Unions shall be informed of the actions being taken and the effect and timing of these actions on the contributions and benefits.

The funding deficit recovery plan shall consist of the following actions in the order of priority as listed below:

1. Increase contributions as allowed in Section 4; and

2. Reduce base benefits on a proportionate basis for all Members regardless of membership status, including those currently receiving pensions from the Plan, in equal proportions, for past service.

The above actions shall be taken one by one and when the primary risk management goal is met, no further actions are required at the time. Further actions are triggered when the primary risk management goal cannot be achieved with the cumulative effect of all previous actions, such goal being measured annually and follow-up actions to take effect as per the timelines below.

For example, if the funding deficit recovery plan is triggered, the Board of Trustees would implement step 1 first and conduct the primary risk management goal test. If step 1 is sufficient to meet the primary risk management goal, no further action would be required at that time. At the next annual review, the goals would be tested again and if not achieved, step 2 would be implemented in the same manner and under the same circumstances as step 1.

The base benefit reduction in Step 2, if required, shall be such that both goals below are achieved:

1. 105% open group funding level; and

2. Primary risk management goal of a minimum of 97.5% probability that base benefits need not be further reduced over the next 20 years.

The measurement date is the Funding Policy valuation date that triggered the need for the action or actions taken under the funding deficit recovery plan.

The timing of the changes shall be as follows:

1. For contribution increases under step 1, no later than 12 months following the date of the Funding Policy valuation report that triggered the need for contribution increases.

2. For step 2, no later than 18 months following the date of the Funding Policy valuation report that triggered the need for base benefit reductions.

SECTION 6
FUNDING EXCESS UTILIZATION PLAN

The funding excess utilization plan describes the actions the Board of Trustees must take or consider when the open group funding level exceeds 105%. If the open group funding level is at 105% or less, there are no actions that can be taken under the funding excess utilization plan.

EXCESS AVAILABLE FOR UTILIZATION

The amount available for utilization is as follows:

1. 30% of the excess funds that make up the difference between the open group funding level at the valuation date of 120% to a maximum of 140%; PLUS

2. 100% of the excess above 140%.

Notwithstanding, the amount available for utilization for reversing any base benefit reductions is as follows:

1. 20% of the excess funds that make up the difference between the open group funding level at the valuation date of 105% to a maximum of 140%; PLUS

2. 100% of the excess above 140%.

The actions that can be taken depend on whether the base benefits have ever been reduced and such reduction not subsequently reversed and on the priority order set out below.

BASE BENEFITS REDUCED

If base benefits have been reduced, all excess available for utilization must first be used to reverse such base benefit reductions with respect to future payments after the date of reversal until all the previous reductions to base benefits have been eliminated.

OTHER ACTIONS

If base benefits have never been reduced or after all previous reductions have been reversed for future payments, then the Board of Trustees shall take the following actions with respect to the excess available for utilization. Such actions shall be taken in the following order of priority:

1. Provide indexing of flat dollar amounts and pension benefits for current year at 0.8% per annum.

2. Provide indexing of accrued flat dollar amounts and pension benefits for any past years that were missed at 0.8% per annum.

If some residual excess remains available after providing maximum allowed increases under the ITA for actions 1 and 2 above, such excess shall remain in the fund as increased security against future potential downturns in experience.

If all improvements for actions 1 and 2 above have been made and the open group funded ratio is still in excess of 140%, then the following actions shall be taken:

3. 30% of such amounts in excess of the 140% open group funded ratio shall be used to provide further contingent indexing of accrued flat dollar amounts and pension benefits.

4. Remaining 70% of such amounts in excess of the 140% open group funded ratio shall be used to:

    (i) Further increase benefits; and/or

    (ii) Provide further benefit security by not spending on benefit enhancements.

The level to which action 4 is utilized by the Board of Trustees is based on the full discretion of the Board of Trustees in power at the time such excess arises.

Notwithstanding the above, the percentage increase to accrued benefits or pensions in payment that may result from actions 1 to 4 shall be the same for all members and former members, subject to an individual limit of recovery of full CPI up to January 1st of the year that follows the valuation date or coincides with it if the date of the valuation is January 1st of the same year.

If the open group funded ratio is above 140%, any and all base benefit reductions have been reversed and actions 1 and 2 have been provided, the Board of Trustees may consider Permanent Benefit Changes and / or amending the Plan by reducing contribution rates as per Section 21.06 of the Plan text, subject to the approval of the Board of Trustees.

If all of the actions above still leave the Plan with contributions in excess of the ITA limits, then contributions are to be reduced accordingly until such ITA limits are no longer exceeded.

Each of the actions above can only be implemented after confirming that the primary risk management goal is achieved after the change is made.

The timing of the above actions shall be the first of the year that is 12 months after the date of the Funding Policy valuation report that triggered the actions.

SECTION 7
ACTUARIAL ASSUMPTIONS

A Funding Policy actuarial valuation shall be conducted by the Plan's actuary at December 31st of each year. The actuarial assumptions used for the Funding Policy actuarial valuation and factors to consider regarding changing such assumptions are discussed in this section.

DISCOUNT RATE

The initial discount rate shall be 5% per annum. This discount rate shall remain in effect until, and including, the Funding Policy actuarial valuation report as at December 31, 2014.

A change in the discount rate can be considered for the December 31, 2015 actuarial valuation or any later valuation. Once a change is made, it shall remain in effect for at least two subsequent valuations (i.e., three valuation reports in total).

A change would only be made if the following conditions are met:

- The probability of meeting or exceeding the discount rate over the next 20 years based on the target asset mix in the investment policy changes materially from approximately 90%;

- The Board of Trustees agree that such a change can be made; and

- The primary risk management goal is achieved.

The intent is to leave the discount rate stable.

MORTALITY

The mortality table shall be 95% of the mortality rates of the full generational UP94 mortality table with mortality projection scale AA, wherein the rates of the mortality projection scale AA multiplied by 125% for males and by 140% for females. In comparison, the December 31, 2011 valuation used the full generational UP94 mortality table with mortality projection scale AA. The factors of 95%, 125% and 140% each add conservatism reflecting the improvement of life expectancy recently highlighted by the Canadian Institute of Actuaries (CIA).

The mortality basis shall only be changed if required by the Superintendent or the Canadian Institute of Actuaries to reflect improvements in life expectancy beyond those contemplated by the last table used or if recommended by the Plan actuary to reflect even greater improvements in life expectancy.

OTHER ASSUMPTIONS

With the exception of the above, the other assumptions used in the December 31, 2012 Funding Policy actuarial valuation were the same assumptions as those used in the December 31, 2011 Actuarial Valuation. Future Plan experience, as such experience unfolds, may indicate that a change in assumptions for Funding Policy actuarial valuations performed on December 31, 2013 and beyond, is warranted.

SECTION 8
ANNUAL REVIEW

The annual review of the Funding Policy consists of two elements as follows:

1. Process for application of the Funding Policy; and

2. Identification of potential changes to the Funding Policy that may be required.

APPLICATION OF FUNDING POLICY

The Funding Policy shall be applied as follows:

1. Funding Policy valuation report as at December 31st of each year.

2. Risk management procedure conducted as at the valuation date each year.

3. Calculation of the open group funded ratio.

4. Identification of Board of Trustees action or actions required or possible under this Funding Policy.

5. Test of risk management goals as required under the Funding Policy after change in step 4 and, if met, step 4 can be implemented.

6. If the test in step 5 is not met, then make a change in step 4 adjusted under the terms of the Funding Policy such that the risk management goals required to be met under the terms of this Funding Policy are met.

7. Report to Superintendent and fulfill any other PBA requirements.

8. Report to Members, Employers and Unions.

IDENTIFICATION OF POTENTIAL CHANGES

The Board of Trustees shall annually review the terms of this Funding Policy to identify changes required to either improve clarity of the Funding Policy or remain current with changing Plan, pension environment, demographic or economic circumstances.

The following changes may be made by the Board of Trustees:

1. Changes that are needed to comply with a law or regulation; or

2. Subject to (1), changes that are not related to or do not affect the parameters (the "**Parameters**") set out as follows:

   (i) Initial Contributions

   (ii) Contribution Adjustments

   (iii) Funding Deficit Recovery Plan (Section 5)

   (iv) Funding Excess Utilization Plan (Section 6)

All other changes must be approved by the Board of Trustees, and ultimately, the Superintendent.