600 3rd Avenue SW, 18th Floor
Calgary, AB T2P 0G5

Mailing address:
Aon – 88917, PO Box 79052
Concord, ON L4K 4S8

+1 403 290 3394
steve.windsor@aon.com

September 23, 2024

BY EMAIL

Jeff Norton
President & CEO
Teachers' Retirement Allowances Fund
330 - 25 Forks Market Road
Winnipeg, MB R3C 4S8

RE: ACCOUNT B GOVERNMENT FUNDING ANALYSIS

Dear Jeff:

This letter is intended to supplement our Account B Funding Analysis report dated August 8, 2022. As you recall, that report concluded that there is a clear impetus for the Province to exhibit financial responsibility by pre-funding its pension liabilities immediately to avoid drastic funding increases in the future and to enhance the benefit security of plan members.

The purpose of this correspondence is to provide additional commentary based on the most recent actuarial valuation of the Teachers' Retirement Allowances Fund and projection valuation of Account B, performed as of January 1, 2024. Our position is unchanged from the 2022 report.

The most recent actuarial valuation for Account B performed at January 1, 2024 indicated an accrued funded ratio of 61.7%, with an unfunded pension liability of $1,858,663,000. While the accrued funded ratio has improved slightly from 60.0% at January 1, 2021, the unfunded pension liability increased from $1,769,652,000. The improvement in the accrued funded ratio is predominately due to greater than expected investment returns over the inter-valuation period, an increase in the valuation discount rate from 5.50% per year to 5.75% per year, and a one-time $50M funding contribution by the Province on August 25, 2023. However, while the funding ratio improved, the unfunded pension liability increase resulted from negative demographic experience over the inter-valuation period, interest growth on the unfunded pension liability and the fact that the Province's contributions were not sufficient to meet the cost of accruing benefits, let alone address the unfunded pension liability.

Under the Province's current funding practice, Account B, which had assets of $2,995,931,000 at January 1, 2024, is projected to be depleted of all assets in 2056, according to our January 1, 2024 projection valuation. This is compared to the expected depletion of assets in 2053 based on the previous projection valuation at January 1, 2021.

Once the assets in Account B are depleted, the Province's funding would become "pay-as-you-go", which means the Province would simply pay its share of pensions as they come due. Based on projection valuation for Account B performed at January 1, 2024, the Province's contributions to TRAF are expected to more than double from 2055 to 2057, once the assets in Account B are depleted in 2056. We estimate the Province's required funding contributions will increase from $299M in 2055 to $684M in 2057, to pay its share of pensions payable.

It is highly unlikely for excess investment returns to eliminate this deficiency in the future. Only additional funding contributions from the Province, over and above current levels, will reduce the unfunded pension liability and allow the Province to avoid the depletion of Account B assets in the future and the corresponding significant increase in funding requirements.

The arguments for pre-funding Account B as outlined in 'Section 3 – Funding Considerations' of the Account B Funding Analysis report still hold true, including the benefits of compound interest, investing in a diversified portfolio, and smoothing of contribution requirements to reduce volatility in the future. Pre-funding of Account B would enhance the benefit security for members of TRAF, while allowing the assets of Account B to run out jeopardizes this benefit security. As pay-as-you-go financing comes from government operations, delaying the funding of the Province's obligations under the plan shifts the tax burden to future generations of Manitoba taxpayers.

To avoid the depletion of Account B assets and significant increases in the Province's future contribution requirements, the Province should still introduce a strategy for addressing the unfunded pension liability and increase its funding of Account B. The 2022 report outlined many options for addressing the unfunded pension liability including amortizing the unfunded pension liability over a certain period. We note that the annual contribution amounts to amortize the unfunded pension liability over 15 or 40 years, as determined in our projection and sensitivity valuations at January 1, 2024, are higher than those outlined in the 2022 report. This indicates the importance of commencing additional contributions immediately – the longer the Province delays commencing contributions, the more it must need to contribute in the future.

The conclusion drawn in the Account B Funding Analysis report remains the same. There is still a clear impetus for the Province to exhibit financial responsibility by pre-funding its pension liabilities now to avoid drastic funding increases in the future and to enhance the benefit security of plan members.

We trust this provides you with the information you require. Please let us know if you have any questions or wish to discuss further.

Sincerely,

Steve Windsor
Partner, FSA, FCIA
403 290 3394
steve.windsor@aon.com

c.c.: Brad Prokop, TRAF
Raymond Li, TRAF