Ontario Teachers' Pension Plan sponsors to file fully-funded valuation with regulators

Surplus funds to be held in reserve

The Ontario Teachers' Pension Plan (the plan) is fully funded for a ninth consecutive year, underscoring its long-term financial health and sustainability.

The plan's sponsors, Ontario Teachers' Federation and the Ontario government, have decided to file the January 1, 2022 valuation with the regulators. The surplus will be classified as a contingency reserve.

The sponsors' decision to classify the surplus as a contingency reserve is intended to reduce volatility in the funded position of the plan and facilitate stability in members' contributions and benefits.

HIGHLIGHTS

- **The $17.2 billion preliminary funding surplus as of January 1, 2022 will be classified as a contingency reserve.**
- **This year's filing has no impact on members' contributions and benefits:**
  - **> 2022 member contribution rates will remain at 10.4% of earnings up to the Canada Pension Plan (CPP) limit of $64,900 plus 12% of earnings above the CPP limit (or 11% on average).**
  - **> The January 1, 2023 increase to pensions in pay for all pension credit will remain at 100% of the Consumer Price Index (CPI) Ratio (see below for further details).**

QUESTIONS YOU MAY BE ASKING

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Q: IS MY PENSION SECURE?

A: Yes, your pension is safe and secure.

The Ontario Teachers' Pension Plan Board (Ontario Teachers') is well positioned to navigate the headwinds from the ongoing global pandemic, geopolitical environment, and a volatile investment landscape. By sticking to their fundamentals, including strong liquidity, aligned partnerships and top-notch talent, Ontario Teachers' will continue to deliver on their goals of first-class service and retirement security for you over the long-term.

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Q: WHAT WILL THE CURRENT UNPREDICATBLE GEOPOLITICAL AND ECONOMIC ENVIRONMENT MEAN FOR PENSIONS?

A: Members can rest assured that there is no current impact on pension payments. Retired members will continue to receive pension payments as scheduled. Pension income is based on your earnings and service in the plan.

Also, with the decision to file the January 1, 2022 valuation, there will be stability in contribution and benefit levels at least until the next valuation is filed. The next required funding valuation filing is as at January 1, 2025.

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Q: WHY IS THE SURPLUS BEING CLASSIFIED AS A CONTINGENCY RESERVE?

A: Classifying the surplus as a contingency reserve is beneficial for plan members because it facilitates greater stability of contribution rates and benefit levels in case a future filed funding valuation shows a decline in assets or an increase in pension costs.

It is aimed at keeping the plan fully funded with "base provisions" as referred to in the Funding Management Policy – meaning an average contribution rate of 11% and full inflation protection on all pension credit.

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Q: WHY DID THE DISCOUNT RATE REMAIN THE SAME AS LAST YEAR?

A: We continue to live in an uncertain and unpredictable investment and geopolitical environment with inflation levels the highest we've seen in Canada since the 1990s. Notwithstanding current challenges, the long-term outlook remains stable. As a result, the board decided to hold the real discount rate steady at 2.45% after having lowered it from 2.60% for the January 1, 2021 valuation.

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Q: WHAT'S THE ROLE OF THE FUNDING MANAGEMENT POLICY?

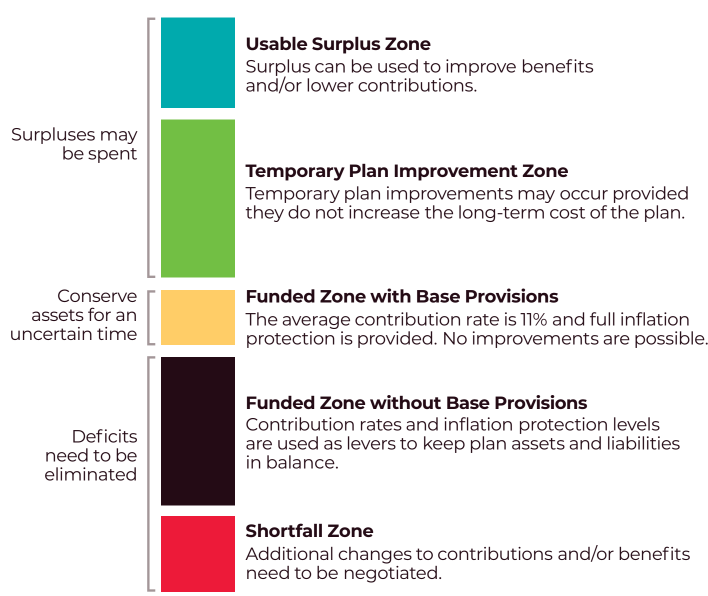
A: The FMP is an important document that provides the sponsors with a guidance framework for decision making when there is a funding surplus or shortfall.

The guidance framework in the FMP is robust, transparent and based on strong actuarial and economic principles. These mechanisms have been utilized by the sponsors for many years, providing guidance in their decisions related to valuation filings. The FMP framework has proven to be very effective and has contributed to the current strong position of the plan.

A key component in the FMP is the concept of funding zones, each defined by a range. The funding zones provide a point of reference for whether action is required by the sponsors. If action is required, guidance is provided on how to use any surplus funds or resolve any shortfall. The FMP is used to determine when it is possible or necessary to increase or decrease benefits, lower or raise contributions, or simply conserve assets for an uncertain time.

The FMP outlines preferred mechanisms associated with its various funding zones and it is ultimately the sponsors' responsibility to decide which actions to take.

Funding Management Policy Zones



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Q: DO THE FUNDING SURPLUSES IN THE LAST NINE YEARS MEAN THE PLAN IS PROTECTED FROM SHORTFALLS?

A: Shortfalls could happen in the future. However, financial levers available to the sponsors help manage the plan's funding status. Sponsors can adjust benefits and/or contribution rates, or utilize conditional inflation protection, if needed to keep the pension plan in balance.

That balance continues to be challenged by numerous factors, including member demographics, an uncertain and unpredictable investment and geopolitical environment, a high inflationary environment, climate change, highly competitive investment markets and the ongoing COVID-19 pandemic.

There can be no assurance of high returns in this complex and rapidly changing investment environment.

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Q: IF THERE IS A DEFICIT IN THE FUTURE, CAN WE USE THE CONTINGENCY RESERVE TO BALANCE THINGS OUT?

A: A future deficit could occur if assets are outweighed by liabilities on a future valuation date. Reserving surplus when a valuation is filed with the regulatory authorities makes it available for investing and earning returns, helping to protect the fund against future deficits. In other words, it is a preventative measure against future deficits occurring, not a cure should one occur in the future.

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Q: HOW DO YOU DETERMINE HOW MUCH INFLATION PROTECTION TO PROVIDE?

A: Annual increases to pensions in pay are calculated by comparing the average Consumer Price Index (CPI) for the 12-month period ending in September to the previous 12-month average (the CPI Ratio). This approach smooths out short-term volatility and is similar to the approaches used by many large pension plans. The current high levels of inflation will be factored into future increases to pensions as they flow into the averaging period.

The level of inflation protection provided to members is a plan sponsor decision. When the plan has a funding shortfall, smaller cost-of-living increases help to bring the plan back into balance. When there is a funding surplus, inflation levels may be partially or fully restored.

Pension credit earned before 2010 is 100% protected against inflation. Annual cost-of-living increases for pension credit earned after 2009 are conditional and depend on three factors:

1. Changes in the cost of living, as measured by the CPI Ratio as defined above.
2. The plan's funding status, which is used to gauge how much of the CPI Ratio the plan can afford to provide.
3. When you earned your pension credit.

Inflation Protection Levels

PENSION CREDIT	ALLOWABLE LEVELS*	CURRENT LEVELS*
Earned before 2010	100%	100%
Earned during 2010-2013	50% to 100%	100%
Earned after 2013	0% to 100%	100%

*Percentage of the CPI Ratio.

The current 100% inflation level will remain in effect at least until the next funding valuation is filed with the regulators. A funding valuation must be filed at least once every three years.

IMPACT ON YOUR PENSION

To see how inflation increases affect your annual pension each year, sign in to your Ontario Teachers' Pension Plan online account. Visit this page to register for or sign in to your Ontario Teachers' Pension Plan account: www.otpp.com/members

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Q: WHY WILL SOME GENERATIONS OF MEMBERS RECEIVE DIFFERENT BENEFITS THAN OTHERS?

A: Pension plan provisions can change over time and no generation of teachers has received exactly the same benefits as the one before or after it. For example, inflation protection was not provided automatically until the mid-1970s, and many older members did not have an opportunity to retire at an 85 factor or receive a 10-year pension guarantee.

Keep in mind that Ontario's *Pension Benefits Act* protects the value of pension benefits already earned by working and retired members.

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Q: CAN A MEMBER MAKE ADDITIONAL CONTRIBUTIONS TO THE PLAN?

A: No. The plan is not designed to take additional contributions from members.

MORE INFORMATION

- Visit the pension plan's website at www.otpp.com/funding
- Talk to your affiliate pension representative