How inflation increases affect your pension

After you retire, your annual pension increase will depend on three key factors.

1

THE BASE INFLATION ADJUSTMENT

The base inflation adjustment reflects increases in the cost of living, as measured by the Consumer Price Index (CPI).

The CPI is the most widely used indicator of price changes in Canada. It tracks the cost of a fixed basket of goods and services purchased by consumers, such as food, shelter, transportation and household goods.

To calculate the base inflation adjustment, we compare the average monthly CPI for the 12-month period ending in September to the 12-month average a year earlier, effectively averaging monthly increases.

2

THE PLAN'S FUNDING STATUS

The plan's funding status determines how much of the base inflation adjustment the pension plan can afford to pay.

If a funding valuation projects a shortfall of assets to meet the projected cost of pension benefits, the plan sponsors — the Ontario Teachers' Federation (OTF) and the Ontario government — must eliminate it before filing the valuation with the pension regulators. To eliminate a shortfall, OTF and the government could provide less than 100% inflation protection to retired members for the portion of their pensions earned after 2009.

Any change in the level of inflation protection takes effect on the January 1st immediately following the valuation filing date. This level will remain in effect until the next valuation is filed with the regulators, at which time the level may be reduced or increased depending on the plan's funded status.

3

WHEN YOU EARNED YOUR PENSION CREDIT

There are three periods of pension credit that come into play when determining your annual pension increase in retirement.

Each period has a different level of inflation protection. For example, if you have taught on a full-time contract since 2006, you will be affected by all three periods of pension credit, as shown in the chart below. Pension credit represents your actual teaching time.

When you earned your pension credit	Inflation protection level	What it means when you retire
Earned before 2010	100%	This portion of your pension will keep pace with annual increases in the Consumer Price Index (CPI).
Earned during 2010-2013	50% to 100%	This portion of your pension will receive at least 50% and up to 100% of the annual increase in the CPI.
Earned after 2013	0% to 100%	This portion of your pension will receive from zero to 100% of the annual increase in the CPI.

Putting it all together

Louise, Jason and Chloe are at different stages in their careers. Each will be affected differently by the plan's inflation provision after they retire. For simplicity, we assume each retires with a $50,000 annual pension after 25 years of full-time teaching. Here's how their annual inflation increases will be calculated:

1. The pension plan determines the base inflation adjustment. In this example, we assume the annual inflation adjustment is 2%.
2. OTF and the Ontario government set the level of inflation protection for the year, based on the plan's funded status. Let's assume the sponsors agree to provide smaller inflation increases to keep pension plan assets and liabilities in balance. In this example, we assume the plan will provide the following inflation increases:
   - 90% for pension credit earned during 2010 to 2013; and
   - 90% for pension credit earned after 2013.

   Pension credit earned before 2010 is 100% protected against inflation.

   Using our example of 2% inflation, the annual pension increase for retirees will include:
   - 2% for any pension credit earned before 2010;
   - 1.8% for any pension credit earned during 2010 to 2013 (90% of 2%); and
   - 1.8% for any pension credit earned after 2013 (90% of 2%).
3. Now that we know the base inflation adjustment and the level of inflation protection to be provided, we can calculate the annual increase for our three members — Louise, Jason and Chloe — based on when they earned their pension credit.

NB: The figures used in the following examples are provided for illustrative purposes only. We won't know the actual inflation adjustment these teachers will receive for post-2009 credit until the increase is determined each year after they retire.

Examples

LOUISE: OUR LATE-CAREER TEACHER

Louise earned 75% of her pension credit before 2010, 15% during 2010 to 2013 and 10% after 2013. That means 75% of her pension will be fully protected against inflation throughout her retirement and the remaining 25% will be conditionally protected. Here's how her annual pension increase will be calculated based on the above assumptions.

When Louise earned her pension credit	Inflation level	How we calculate the increase: Pension X inflation level X % of credit	Her pension increase
75% earned before 2010	100% of CPI = 2.0%	$50,000 X 2.0% X 75%	$750
15% earned during 2010-2013	Set at 90% of CPI = 1.8%	$50,000 X 1.8% X 15%	$135
10% earned after 2013	Set at 90% of CPI = 1.8%	$50,000 X 1.8% X 10%	$ 90
Total Pension Increase			**$975**

Examples (continued)

JASON: OUR MID-CAREER TEACHER

Jason earned 45% of his pension credit before 2010, 15% during 2010 to 2013 and 40% after 2013. That means 45% of his pension will be fully protected against inflation throughout his retirement and the remaining 55% will be conditionally protected. Here's how his annual pension increase will be calculated.

When Jason earned his pension credit	Inflation level	How we calculate the increase: Pension X inflation level X % of credit	His pension increase
45% earned before 2010	100% of CPI = 2.0%	$50,000 X 2.0% X 45%	$450
15% earned during 2010-2013	Set at 90% of CPI = 1.8%	$50,000 X 1.8% X 15%	$135
40% earned after 2013	Set at 90% of CPI = 1.8%	$50,000 X 1.8% X 40%	$360
Total Pension Increase			**$945**

CHLOE: OUR EARLY-CAREER TEACHER

Chloe earned 12% of her pension credit during 2010 to 2013 and 88% after 2013. That means 100% of her pension will be conditionally protected against inflation after she retires. Here's how her annual pension increase will be calculated.

When Chloe earned her pension credit	Inflation level	How we calculate the increase: Pension X inflation level X % of credit	Her pension increase
0% earned before 2010	N/A	N/A	N/A
12% earned during 2010-2013	Set at 90% of CPI = 1.8%	$50,000 X 1.8% X 12%	$ 108
88% earned after 2013	Set at 90% of CPI = 1.8%	$50,000 X 1.8% X 88%	$ 792
Total Pension Increase			**$900**

The bottom line

- Your annual inflation increase is determined each year after you retire.
- You don't bank or accumulate a particular level of inflation protection while you work.
- Your annual inflation increase is added to your existing pension amount. This new amount becomes your new lifetime pension.
- Throughout your retirement, you will receive 100% inflation protection for any pension credit you earned before 2010.
- Throughout your retirement, you will receive a variable amount of inflation protection for any pension credit you earned after 2009. The amount will vary each year, depending on the plan's ability to pay for it.

MORE INFORMATION

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

OTF Your Voice. Your Strength. Ontario Teachers' Federation | Ontario | ONTARIO TEACHERS' PENSION PLAN | aefo Association des enseignantes et des enseignants franco-ontariens | Ontario English Catholic Teachers Association | ETFO FEEO | OSSTF/FEESO