Top Plan Funding Q&As

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Q: HOW WILL THE SURPLUS FUNDS BE USED?

A: The Ontario Teachers' Pension Plan reported a preliminary $6.8 billion surplus on March 31, 2015. The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the pension plan, are using some of the surplus to increase inflation protection levels for pension credit earned after 2009.

The sponsors are also reserving some of the surplus to keep contribution and benefit levels stable should a future funding valuation show a decline in assets or increase in pension costs.

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Q: HOW MUCH IS THE INFLATION BOOST?

A: Inflation protection for pension credit earned after 2009 is increasing to 70% from 60% of the annual increase in the cost of living. In addition, teachers who retired after 2009 will receive a pension boost to restore inflation increases. The changes take effect Jan. 1, 2016.

Here's an overview of the level of inflation protection provided for different periods of pension credit:

Pension credit	Allowable levels*	Current levels*	New levels in 2016*
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	60%	70%
Earned after 2013	0% to 100%	60%	70%

* *Percentage of annual cost-of-living increase, based on changes in the Consumer Price Index (CPI)*

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

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

1. Annual changes in the cost of living, as measured by increases in the Consumer Price Index (CPI)
2. The plan's funding status, which is used to gauge how much of the CPI increase the plan can afford to provide
3. When you earned your pension credit

For more information, see How inflation increases affect your pension (238KB PDF)

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Q: WHY ARE ONLY TEACHERS WHO RETIRED AFTER 2009 BENEFITING FROM THE SURPLUS?

A: All members will benefit from the additional stability provided by holding funds in reserve. Teachers who retired after 2009 will also benefit from having some of their inflation protection restored. Only these retired teachers were directly affected by reduced levels of inflation protection, which were introduced in recent years to address recurring funding shortfalls.

Members who retired before 2010, when conditional inflation protection went into effect, receive full inflation protection because pension benefits already earned cannot be reduced under Ontario's Pension Benefits Act.

Members do not receive or bank inflation increases while they are still working. However, the annual funding valuation assumes working teachers will receive a specific level of inflation protection for post-2009 pension credit throughout their retirement years. The Jan. 1, 2015, valuation to be filed with the pension regulators assumes 70% inflation protection for post-2009 credit. In reality, the amount will fluctuate with changes in the plan's funding status throughout each teacher's retirement years.

Top Plan Funding Q&As - continued

5 **Q: HOW DID THE MOST RECENT SURPLUS ARISE?**

A: Plan assets grew faster than liabilities (the cost of future pensions) primarily due to a strong 11.8% return on the plan's investments in 2014. The growth in assets was partly offset by falling interest rates and increasing longevity, which increased the plan's liabilities.

6 **Q: DOES THE SURPLUS MEAN THE PLAN'S FUNDING SHORTFALLS ARE OVER?**

A: Levers introduced by OTF and the government to help manage the plan's funding status – higher contribution rates and conditional inflation protection – are working to keep the pension plan in balance.

That balance continues to be challenged by rising pension costs due to low interest rates, increasing longevity and long periods of retirement. The plan's funding position is also vulnerable to market downturns and a volatile investing environment that is not expected to produce the same high returns achieved in the past.

For more details, read Funding Considerations.

7 **Q: WHAT HAPPENED TO THE SURPLUS REPORTED IN 2014?**

A: Most of the $5.1 billion surplus reported in the plan's 2014 funding valuation was used to increase inflation protection for pension credit earned after 2009.

For information on how the surplus was used, read Inflation protection levels to be partially restored for recent retirees.

8 **Q: CAN A MEMBER CONTRIBUTE MORE TO THE PENSION PLAN TO "PAY FOR" FULL INFLATION PROTECTION?**

A: No, contributions to the Teachers' plan are based on a percentage of salary. The plan is not set up to take additional contributions from members to top up their benefits.

9 **Q: WHY WILL SOME GENERATIONS OF MEMBERS RECEIVE POTENTIALLY LOWER INFLATION INCREASES THAN OTHERS?**

A: Pension plan provisions 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.

Have a look at the infographic, The evolution of a teacher's pension, to see how pension benefits and contribution rates have changed with the times since a pension plan was created for Ontario teachers in 1917.

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

10 **Q: IS MY PENSION SECURE?**

A: Yes, you will receive a pension when you retire. That pension may look different than the pensions of today, just as today's pensions look different than those of 10 or 20 years ago. Keep in mind that the pension plan has $154.5 billion in assets and pays out about $5 billion annually.