

Discount Rate Review

RESPONSE OF THE ONTARIO TEACHERS' PENSION PLAN AND ITS SPONSORS TO THE DISCOUNT RATE ASSUMPTION REVIEW

JUNE 17, 2011

The Ontario Teachers' Federation (OTF), Ontario Government and Ontario Teachers' Pension Plan (Teachers') Board all have agreed with recommendations stemming from an independent review of the discount rate used to estimate the cost of future pensions. The review concluded that the 3.15% discount rate used by the Board for the Plan's 2011 preliminary valuation was within a reasonable range and outlined conditions precedent to increasing the discount rate.

The review was initiated by OTF and the Ontario Government, which jointly sponsor the pension plan, in response to the preliminary 2011 funding valuation of the pension plan. The valuation showed the plan had a preliminary \$17.2 billion shortfall between projected plan assets and estimated future pension costs. OTF and the Ontario Government initiated the Hearing Officer review because of concerns that the discount rate used by the pension plan's Board was too low, thus overstating the pension plan's 2011 preliminary \$17.2 billion funding shortfall.

The discount rate assumption, also called the rate of return assumption, plays a critical role in projecting whether or not the pension plan has enough assets to meet its future pension obligations. A low discount rate assumption increases the projected cost of pensions; a higher assumption lowers this cost.

OTF, the Government and Teachers' appointed actuary Jean-Pierre Provencher as the independent Hearing Officer to conduct the review. Mr. Provencher is former chair and CEO of Aon Consulting Inc. and former consulting actuary to OTF.

In May 2011, Mr. Provencher presented a report of his findings to the three parties to aid the plan sponsors in their deliberations on how to resolve the pension plan's projected shortfall. In June 2011, OTF and the Ontario Government announced a tentative agreement to address the shortfall. In July 2011, the agreement was finalized. Details on the agreement can be found in the Plan Funding section of www.otpp.com and on www.FundingYourPension.com.

