# Change in inflation protection has small impact on recent retirees

**February 7, 2013** – The Ontario Teachers' Federation (OTF) and the Ontario government announced an agreement today to address the pension plan's 2012 funding shortfall. Under the agreement, recent retirees will receive slightly smaller inflation increases.

- **If you retired before 2010,** the change does not affect you. You will continue to receive 100% inflation protection.
- **If you retired after 2009,** you will receive 50% of the annual increase in the cost of living for the portion of your pension earned after 2009. The change begins in 2014. Inflation protection for the portion of your pension earned before 2010 remains unchanged at 100% of the annual cost-of-living increase.

## Pensioners who retired after 2009

You received 60% of the annual cost-of-living increase for pension credit earned after 2009 as part of your annual pension adjustment in January 2012 and 2013. In January 2014, the adjustment on your post-2009 credit will change to 50% of the cost-of-living increase. Typically, the difference equates to less than a dollar a month. The 50% level will be in effect at least until a future funding valuation (a financial assessment of the pension plan) is filed with the provincial pension regulator. The next valuation filing is due in 2015.

### HOW WE DETERMINE YOUR PENSION INCREASE

Your annual pension increase depends on three key factors:

1. **The base inflation adjustment –** This reflects the increase in the cost of living, as measured by changes in Statistics Canada's Consumer Price Index (CPI).
2. **When you earned your pension credit –** Pension credit earned before 2010 is fully protected against inflation. As a result of an earlier change in the plan's inflation protection provision, pension credit earned after 2009 includes conditional, or variable, inflation protection.
3. **The level of conditional inflation protection provided –** Inflation increases for pension credit earned from 2010 to 2013 can range from 50% to 100% of the base inflation adjustment, depending on how much the pension plan can afford to provide.

### THE BOTTOM LINE

The difference between 50% of the base inflation adjustment (the level for 2014) and 60% (the level provided this year) for post-2009 credit will probably equal the price of an occasional cup of coffee.

## Other changes that affect only working teachers

The agreement to resolve the 2012 funding shortfall included other decisions that have *no effect* on current retirees. These include:

- Inflation protection for pension credit earned after 2013 will range from zero to 100% of the change in the cost of living, depending on the plan's funded status. This change affects only teachers who have not yet retired.
- Working members will be surveyed later this year to identify their preferences for possible changes in benefits should funding shortfalls persist.
- A task force will study factors that contribute to funding shortfalls, including plan demographics, the balance between the average number of years teachers work versus collect a pension, and intergenerational risk.

## Key questions

### Q: IS MY PENSION SECURE?

**A:** Yes, OTF and the Ontario government are committed to the long-term viability of the plan. With $117.1 billion in assets, the pension plan has enough money to pay pensions for many years. But pension plans are required to look ahead 70 years or more. That's when today's newest teachers and their survivors could still be collecting their pensions.

### Q: CAN MY BENEFITS BE REDUCED?

**A:** Current Ontario legislation protects the value of pension benefits already earned by working and retired members. Only pension benefits not yet earned can be adjusted during a teacher's career.

### Q: COULD THE GOVERNMENT CHANGE THE LEGISLATION THAT PROTECTS THE BENEFITS I'VE ALREADY EARNED?

**A:** The government can change legislation, but we cannot speculate on whether that will occur.

### Q: WHAT'S THE PENSION PLAN'S FUNDING OUTLOOK?

**A:** The inflation changes paved the way for the elimination of the $9.6 billion funding shortfall projected at the beginning of 2012. However, another small funding shortfall is expected in 2013 because the cost of future pensions continues to grow faster than plan assets.

Increased life expectancy, longer retirements and low long-term interest rates are increasing future pension costs faster than the expected growth in plan assets, resulting in recurring funding shortfalls.

### MORE INFORMATION

→ Visit the Member section of otpp.com for basic information on inflation protection.

OTF Your Voice. Your Strength. Ontario Teachers' Federation

Ontario

TEACHERS' PENSION PLAN ONTARIO

Association des enseignantes et des enseignants franco-ontariens

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