Agreement reached to keep Teachers' plan on sound financial footing

February 7, 2013 – The Ontario Teachers' Federation (OTF) and the Ontario government, which sponsor the Ontario Teachers' Pension Plan, announced an agreement today to address the pension plan's 2012 funding shortfall.

Under the agreement:

- 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.
- Recent retirees will receive slightly smaller annual inflation increases.
- 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.

The inflation change paved the way for the elimination of a $9.6 billion funding shortfall, projected at the beginning of 2012. However, another small funding shortfall is expected in 2013 because plan liabilities, or the cost of future pensions, continue to grow faster than plan assets.

Since 2002, the Teachers' pension plan has projected annual funding shortfalls caused by an aging membership, longer retirement periods, low interest rates and uncertain economic conditions. Solid long-term investment returns, as well as previous changes in contribution rates and inflation protection, have been insufficient to offset growing pension costs.

Making inflation protection for future credit fully conditional on the plan's ability to pay for it gives OTF and the government increased flexibility to manage funding shortfalls when they arise in future.

Change in inflation provision paves way for elimination of 2012 shortfall

The Ontario Teachers' Federation (OTF) and the Ontario government changed the way inflation increases will be determined after you retire.

While full inflation protection remains the goal, increases for the portion of your pension earned after 2013 could range from zero to 100% of the change in the cost of living, depending on how much the plan can afford.

The change will have no effect on current retirees and minimal effect on teachers who retire within the next few years because the value of pensions already earned cannot be reduced under Ontario's Pension Benefits Act. Inflation protection after you retire is now based on three periods of pension credit, as shown below:

Pension credit	Inflation protection*	What it means after you retire
Earned before 2010	100%	This portion of your pension will keep pace with increases in the cost of living.
Earned during 2010-2013	50% to 100%	Increases for this portion of your pension will range from 50% to 100% of the annual increase in the cost of living, depending on the plan's funded status.
Earned after 2013	0% to 100%	Increases for this portion of your pension will range from zero to 100% of the annual increase in the cost of living, depending on the plan's funded status.

*Inflation protection is based on changes in the cost of living, as measured by changes in Statistics Canada's Consumer Price Index (CPI)

How the change affects different groups of members

The pension plan aims to provide full inflation protection throughout your retirement, but that may not always happen. It will depend on the plan's funding situation. Here's how inflation protection affects different groups of members.

Groups of members	Impact of the inflation change
Pensioners who retired before 2010	No change – your entire pension is fully inflation protected. Your annual pension increase will continue to be 100% of the change in the Consumer Price Index (CPI).
Pensioners who retired after 2009	All the pension credit you earned before 2010 is fully inflation protected.
Late-career teachers	Most of your pension will be fully inflation protected when you retire.
Mid-career teachers	About half of your pension will be fully inflation protected; increases for the other half could range from zero to 100% of the change in the Consumer Price Index each year, depending on the plan's funded status.
New teachers	Most of your pension will not have guaranteed inflation protection. Increases could range from zero to 100% of the change in the Consumer Price Index each year, depending on the plan's funded status.

The Ontario government and other employers will continue to make extra payments to the pension plan equal to the total annual inflation increases that retirees forgo to a maximum of 50% missed inflation. No extra payments will be made for foregone inflation increases below the 50% level.

If the plan is in a surplus position in the future, inflation protection could be restored on a go-forward basis to reflect previously unrecognized inflation.

How we calculate inflation adjustments

After you retire, your annual inflation increase will depend on three key factors:

1. **The base inflation adjustment** – This reflects the increase in the cost of living, as measured by changes in the Consumer Price Index (CPI).
2. **When you earned your pension credit** – Pension credit earned before 2010 is fully protected against inflation; pension credit earned after 2009 includes conditional, or variable, inflation protection.
3. **Funding situation** – How much of the base inflation adjustment the pension plan can afford to provide for pension credit earned after 2009.

How the change could affect members after they retire

Michael, Nicole and Keisha are each at different stages of their careers. Each will be affected differently by the new inflation protection provision. In these examples we assume each has a starting pension of $50,000 and that inflation is 2%.

How the change could affect Michael, our late-career teacher, after retirement

Michael's pension credit	Annual inflation increase set at* 100%	75%	50%	25%	0 %	What it means
75% earned before 2010	$ 750	$ 750	$ 750	$ 750	$ 750	Always 100% for this period
15% earned during 2010-2013	$ 150	$ 113	$ 75	$ 75	$ 75	At least 50% and up to 100% of CPI
10% earned after 2013	$ 100	$ 75	$ 50	$ 25	$ 0	Could be 0% to 100% of CPI
	$ 1,000	**$ 938**	**$ 875**	**$ 850**	**$ 825**	**Total annual increase**
	$ 51,000	**$ 50,938**	**$ 50,875**	**$ 50,850**	**$ 50,825**	**New pension amount**

* Intent is to provide 100% inflation protection on all pension credit whenever the plan can afford it.

How the change could affect Nicole, our mid-career teacher, after retirement

Nicole's pension credit	Annual inflation increase set at* 100%	75%	50%	25%	0 %	What it means
45% earned before 2010	$ 450	$ 450	$ 450	$ 450	$ 450	Always 100% for this period
15% earned during 2010-2013	$ 150	$ 113	$ 75	$ 75	$ 75	At least 50% and up to 100% of CPI
40% earned after 2013	$ 400	$ 300	$ 200	$ 100	$ 0	Could be 0% to 100% of CPI
	$ 1,000	**$ 863**	**$ 725**	**$ 625**	**$ 525**	**Total annual increase**
	$ 51,000	**$ 50,863**	**$ 50,725**	**$ 50,625**	**$ 50,525**	**New pension amount**

* Intent is to provide 100% inflation protection on all pension credit whenever the plan can afford it.

How the change could affect Keisha, our early-career teacher, after retirement

Keisha's pension credit	Annual inflation increase set at* 100%	75%	50%	25%	0 %	What it means
10% earned before 2010	$ 100	$ 100	$ 100	$ 100	$ 100	Always 100% for this period
15% earned during 2010-2013	$ 150	$ 113	$ 75	$ 75	$ 75	At least 50% and up to 100% of CPI
75% earned after 2013	$ 750	$ 562	$ 375	$ 188	$ 0	Could be 0% to 100% of CPI
	$ 1,000	**$ 775**	**$ 550**	**$ 363**	**$ 175**	**Total annual increase**
	$ 51,000	**$ 50,775**	**$ 50,550**	**$ 50,363**	**$ 50,175**	**New pension amount**

* Intent is to provide 100% inflation protection on all pension credit whenever the plan can afford it.

Questions & Answers

Q: IS MY PENSION SECURE?

A: Yes, the Ontario Teachers' Federation (OTF) and the Ontario government are committed to the long-term viability of the pension 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: Yes, but not retroactively. 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: WHAT DEMOGRAPHIC CHALLENGES WILL BE STUDIED?

A: Life expectancy for teachers is higher than the general population and continues to increase. Today, a typical teacher retires at 59 and can expect to collect a pension for 30 years or more. The combined effect of early retirement and increased longevity means members now typically collect pensions for more years than they contribute to the pension plan.

A task force, facilitated by Dr. Harry Arthurs, will study a broad range of issues related to changing demographics and intergenerational risk. Dr. Arthurs, former Dean of Osgoode Hall Law School, chaired the review of Ontario's pension legislation in 2006-2008.

There will also be a survey of working members later this year to identify their preferences for possible changes in benefits should funding shortfalls persist.

Q: WHY WAS ACTION TAKEN NOW TO RESOLVE THE SHORTFALL?

A: OTF and the government jointly decided to file the plan's 2012 funding valuation two years earlier than required by the pension regulator. An earlier filing was determined to be in the best interests of members and taxpayers because the pension plan's funding status was projected to deteriorate due to continued low interest rates and demographic factors. An earlier filing avoids potentially more dramatic changes that likely would be necessary if the valuation were filed later. No other action is required to address future shortfalls until 2015, although the sponsors could once again choose to file earlier than required.

MORE INFORMATION

→ Access resources at www.FundingYourPension.com

→ Visit the plan funding section of www.otpp.com (under the Corporate tab)

→ Talk to your affiliate pension representative