

Funding Update

September 2009

- **BENEFITS AND CONTRIBUTION RATES UNCHANGED WITH FILING OF FUNDING VALUATION**
- **OTF AND GOVERNMENT TO ADDRESS RECURRING SHORTFALLS IN YOUR PENSION PLAN**



The Ontario Teachers' Federation (OTF) and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan, are filing a funding valuation with the provincial pension regulator two years earlier than required by law.

FILING THIS 2009 FUNDING VALUATION MEANS:

- No change is required to contribution rates or benefit levels with this filing.
- The OTF and government have additional time to determine how to keep the Teachers' pension plan financially viable and affordable in the future. No changes would be implemented before the next funding valuation is filed with the regulator up to three years from now.

A funding valuation is an assessment of the long-term financial health of a pension plan. By filing the valuation now, the OTF and government gain time to address funding challenges that will persist because the cost of future pension benefits is growing faster than plan assets. Projections show funding shortfalls will recur because of factors such as:

- plan demographics;
- low real (after inflation) interest rates, which drive up future pension costs;
- projected modest investment returns; and
- 2008 investment losses, which will be recognized over the next four years due to the effect of "smoothing" (see fourth question, page 2).

The OTF and government, in co-operation with the Ontario Teachers' Pension Plan, will develop a plan by mid-2010 to deal with the pension plan's recurring funding challenges. Members will be kept apprised of their progress through regular updates.

THE OTF AND GOVERNMENT CAN ADDRESS FUNDING SHORTFALLS BY:

- increasing contribution rates;
- invoking conditional inflation protection for pension credit earned after 2009;
- changing other future benefits; or
- adopting a combination of these measures.

Pension benefits already earned by working and retired members cannot be reduced under Ontario's Pension Benefits Act.

Questions & Answers

Q: IS MY PENSION SAFE?

A: Ontario legislation protects the value of pension benefits that both working and retired members have already earned. Only contribution rates and pension benefits to be earned in future years can be adjusted during a teacher's career in response to funding surpluses or shortfalls. For example, about a decade ago, benefits were enhanced using surplus funds. More recently, contributions were increased to address a funding shortfall.

Q: DIDN'T CONDITIONAL INFLATION PROTECTION SOLVE OUR FUNDING PROBLEMS?

A: Conditional inflation protection, which affects pension credit to be earned after 2009, can be invoked to help deal with shortfalls when they arise. However, it cannot prevent shortfalls from occurring. The provision was introduced to deal with funding challenges that arose before financial markets dropped sharply in 2008.

Q: HOW WILL DECISIONS BE MADE ABOUT ANY POSSIBLE CHANGES IN BENEFITS OR CONTRIBUTIONS?

A: The OTF and government will develop a plan by mid-2010 to deal with persistent funding challenges. The plan will be implemented to eliminate a funding shortfall that is projected to arise before the next valuation is filed with the regulator. The deadline for the next filing is Sept. 30, 2012, but a valuation can be filed before then.

Q: WON'T OUR FUNDING CHALLENGES DISAPPEAR WHEN MARKETS REBOUND?

A: Despite good long-term returns, members cannot rely on investment performance alone to turn the tide.

Teachers' and other pension plans are allowed to "smooth" investment gains and losses over five years. This avoids having to adjust contribution or benefit levels frequently because of volatile investment returns. However, it also means that over the next four years the Teachers' pension plan must recognize \$19.5 billion in losses held back in the smoothing adjustment last year. Even if financial markets improve, it is unrealistic to assume that investment returns alone will be high enough to cover the annual cost of pensions, plus make up for this \$19.5 billion.

Q: WHAT HAPPENED TO THE \$2.5 BILLION SHORTFALL REPORTED EARLIER THIS YEAR?

A: The funding valuation filed with the regulator in September shows the plan has enough assets to cover liabilities (the cost of future benefits) as of Jan. 1, 2009.

The filed valuation assumes the pension plan will earn a slightly higher long-term rate of return on investments than assumed in a preliminary valuation conducted earlier this year. This change eliminated most of the estimated shortfall and other minor changes, reflecting recent plan experience, eliminated the rest.

As noted earlier, the pension plan faces many funding challenges, including \$19.5 billion in investment losses that must be recognized over the next four years. The OTF and the government have committed to develop a plan of action by mid-2010 to ensure the plan's sustainability.

More information:

- Visit the plan funding section of the pension plan's website at www.otpp.com
- Visit the OTF's website at www.otffeo.on.ca
- Contact your affiliate pension representative

