

Sustainability Working Group releases final report

A Sustainability Working Group has refined the processes associated with the valuation of the Ontario Teachers' Pension Plan.

The working group was formed in September 2009 to study ways to keep the Teachers' plan secure and affordable well into the future. It included representatives of the Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the pension plan, and pension plan management.

The processes include:

1. an independent review of the rate of return assumption (also known as the discount rate) that is used to estimate the cost of teachers' pensions;
2. formal annual consultations between the plan sponsors (OTF and government) and pension plan management; and
3. a review of options, including possible changes to contribution and benefit levels, if a future valuation shows a projected funding shortfall in the pension plan.

The Teachers' pension plan continues to face funding challenges because plan liabilities (the projected cost of future pensions) are growing faster than plan assets. This has resulted in recurring funding shortfalls, including a preliminary shortfall of \$17.1 billion reported at the beginning of 2010.

1. REVIEW OF RATE OF RETURN ASSUMPTION

The rate of return assumption is set by the pension plan's board to estimate how much investments will earn over time. It has a major impact on the plan's funding position.

An independent review of the assumption could be triggered jointly by the OTF and government if a valuation shows the pension plan has a projected funding shortfall based on an assumed real rate of return of less than 3.575%.

The review would be conducted by an independent actuary appointed by the sponsors. Although the board retains authority to set the rate, the process is expected to provide greater insight into the factors that shape the board's decision and confirm the validity of the board's assumption.

2. FORMAL CONSULTATION AMONG PARTIES

Formal processes have been introduced for discussions between the plan sponsors and pension plan management at every stage in the development of the funding valuation. Before the change, consultations occurred on a less structured basis. Under the formal consultation process, the plan sponsors will be notified at the start of the valuation cycle of material factors affecting the plan's risk profile.



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3. REVIEW OF OPTIONS FOR REDUCING LIABILITIES

The plan sponsors and pension plan management recognize that plan changes may be needed in the future if funding shortfalls persist. To help equip the OTF and government with the information they need to make the best decisions, pension plan management will:

- isolate the various contribution rate and benefit variables;
- estimate the cost of each variable individually and in combination;
- evaluate their impact on the cost of providing future pensions; and
- present their findings to the sponsors.

This information will allow the OTF and government, which set benefit and contribution levels, to consider all possible plan changes and determine which would have the most appropriate impact on the shortfall.

NEXT STEPS

If the funding shortfall persists, measures must be taken to eliminate it before the next funding valuation is filed with the provincial pension regulator. The next regulatory filing is due in 2012, but the OTF and government could choose to file voluntarily before then.

To eliminate a funding shortfall, the OTF and government can:

- increase contribution rates;
- invoke conditional inflation protection for pension credit earned after 2009;
- reduce pension benefits members will earn in future years; or
- adopt a combination of these options.

The value of pension benefits already earned by working and retired members cannot be reduced under current law.

MORE INFORMATION

Visit www.FundingYourPension.com to:

- read the Sustainability Working Group's detailed final report;
- watch presentations on key funding matters; and
- access other funding updates.

General information on funding is also available in the funding section of the pension plan's website at www.otpp.com.

What is a funding valuation?

A funding valuation is an assessment of the long-term financial health of a pension plan. The valuation shows whether the plan has a surplus of assets, a shortfall of assets, or the right amount of assets to cover the projected costs of future pension benefits.

The valuation uses a number of assumptions to compare the value of pension plan assets (such as stocks and bonds, as well as future contributions) to the value of pension plan liabilities (the amount required to pay accrued and future pension benefits).

A valuation is a good measure of the pension plan's financial health because it looks ahead more than 70 years. That's how long the plan is expected to pay future benefits promised to all current members and their survivors.

