2011 shortfall addressed with rate increases and change in inflation protection

June 3, 2011 – The Ontario Teachers' Federation (OTF) and the Ontario government have agreed to a tentative three-part plan to address the projected $17.2 billion funding shortfall in the Ontario Teachers' Pension Plan.

The plan, which is subject to final approval by OTF and the government, includes:

- A 1.1% contribution rate increase, phased in over the next three years
- Slightly smaller annual cost-of-living increases for teachers who retired after 2009
- Recognizing the current contribution rate as the permanent base rate

Plan to address 2011 shortfall

CONTRIBUTION RATES TO INCREASE

Members will contribute an additional 1.1% of their salary to the Teachers' pension plan to help cover the 2011 funding shortfall. The increase will be phased in over three years, with members contributing 0.4% more in 2012 and 0.35% more in each of 2013 and 2014. All rate increases go into effect Jan. 1.

The 0.4% increase translates into an extra $320 in contributions in 2012 for an average teacher earning $80,000. This increase will be partially offset by lower taxes because pension contributions are tax deductible.

The Ontario government and other employers that participate in the pension plan will continue to match total contributions from their employees at the new higher rates.

CONDITIONAL INFLATION PROTECTION INVOKED

This action only affects pensioners who retired *after* 2009. It has no immediate impact on working teachers because annual inflation adjustments (also called cost-of-living adjustments) are calculated only after a member retires, based on the plan's financial health at that time.

For the next three years, pensioners who retired after 2009 will receive 60% of the annual cost-of-living increase on the portion of their pension credit earned after 2009. Increases for the portion of their pension credit earned *before* 2010 continue to match 100% of the annual change in the cost of living.

Because only a small portion of pension credit is affected, a typical pensioner who retired after 2009 will forgo about $2 in monthly inflation increases for three years.

The Ontario government and other employers that participate in the Teachers' plan will make extra contributions to the pension plan equal to the total cost of annual inflation increases that retirees forgo.

CURRENT CONTRIBUTION RATE TO BE RECOGNIZED AS BASE RATE

The current contribution rate is now recognized as the permanent base contribution rate. Changing the base rate has no impact on what members contribute to the Teachers' plan. The base rate is used to project the value of future contributions in a funding valuation. The base contribution rate, to which the rate increases are being applied, is now:

- 10.4% of a member's annual salary up to the Canada Pension Plan (CPP) contributions and benefits limit; plus
- 12.0% of any salary above the CPP limit.

Pension board changes key funding assumption

The pension plan board increased the rate of return assumption used in the 2011 funding valuation to 3.25% from 3.15%, a move that reduced the size of the shortfall. This change was made possible by measures introduced to resolve the 2011 shortfall, which reduced the plan's funding risk.

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

Why the 2011 shortfall was addressed now

In taking action now, OTF and the government addressed the current shortfall and will file a funding valuation with the provincial pension regulator one year earlier than required. OTF and the government concluded this action was advantageous for members because the pension plan's funding status is projected to deteriorate next year due to low interest rates, recognizing 2008 investment losses and other factors.

An earlier filing avoids potentially more dramatic changes that likely would be necessary if next year's valuation were filed, and provides time for possible improvements in factors, such as real interest rates, that affect pension costs. A valuation filed with the regulator must show future assets and future liabilities are in balance – there can't be a shortfall.

OTF, the government and the pension plan continue to work together to examine the plan's long-term funding challenges stemming from member demographics, plan maturity, uncertain economic conditions and other factors. The three parties will continue to study ways to keep the Teachers' pension plan secure and affordable well into the future.

MORE INFORMATION

→ Visit the plan funding section of **www.otpp.com**

→ Access resources at **www.FundingYourPension.com**

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