FUNDING YOUR PENSION - JUNE 2011

Top Plan Funding Q&As

2011 SHORTFALL ADDRESSED

1 **Q: WHAT IS THE PENSION PLAN'S FUNDING STATUS?**

A: The pension plan has been brought back into balance (no funding surplus or shortfall).

The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the Teachers' pension plan, announced changes in June 2011 to address a projected $17.2 billion funding shortfall.

2 **Q: HOW DID OTF AND THE ONTARIO GOVERNMENT ADDRESS THE 2011 SHORTFALL?**

A: OTF and the Ontario government agreed to three changes to address the 2011 shortfall:

- 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

In addition, the pension plan board changed a key assumption used to value projected pension assets, which reduced the size of the shortfall.

3 **Q: DID OTF AND THE GOVERNMENT CONSIDER OTHER OPTIONS TO ADDRESS THE 2011 SHORTFALL?**

A: To address any funding shortfall, OTF and the Ontario 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 plan sponsors considered several solutions before deciding on the changes noted in the answer to question 2.

4 **Q: WHY DID OTF AND THE GOVERNMENT RESOLVE THE 2011 SHORTFALL THIS YEAR?**

A: OTF and the government concluded it was advantageous to members to address the shortfall in 2011 because the pension plan's funding status is projected to deteriorate in 2012 due to low interest rates, recognizing 2008 investments losses and other factors. They will file a balanced funding valuation with the provincial pension regulator one year earlier than required by law.

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 (after inflation) interest rates, that affect pension costs.

A balanced funding valuation must be filed with the regulator at least once every three years. A filed valuation must show future assets and future liabilities are in balance — there cannot be a shortfall.

The next valuation is required by the regulator in 2014.

5 **Q: WHY DID THE PENSION PLAN USE A HIGHER RATE OF RETURN ASSUMPTION TO HELP RESOLVE THE SHORTFALL?**

A: 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 rate of return assumption increases the projected cost of pensions; a higher assumption lowers this cost.

Top Plan Funding Q&As – continued

CONTRIBUTION INCREASES FOR TEACHERS

6 **Q: HOW MUCH ARE RATES INCREASING?**

A: 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.

7 **Q: WHAT ARE THE NEW CONTRIBUTION RATES?**

A: A two-tiered formula is used to calculate contributions to the Teachers' pension plan. Contributions are lower on salary up to the Canada Pension Plan (CPP) contributions and benefits limit, and higher on any salary above the CPP limit.

Contribution increases totalling 1.1% of salary will be phased in over three years to help offset the 2011 funding shortfall.

Contribution rates

Year	Up to CPP limit*	Above CPP limit	Increase **
2011	10.4%	12.0%	N/A
2012	10.8%	12.4%	0.4%
2013	11.15%	12.75%	0.35%
2014	11.5%	13.1%	0.35%
Total increase			**1.1%**

*The Canada Pension Plan (CPP) limit is the maximum earnings on which CPP contributions and benefits are based. The limit, which changes annually, is $48,300 in 2011.

** As a percentage of salary.

8 **Q: HOW MUCH MORE WILL I CONTRIBUTE?**

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

9 **Q: WHY ARE CONTRIBUTION RATES INCREASING?**

A: OTF and the government are increasing contribution rates to help offset the 2011 funding shortfall.

10 **Q: WILL THE GOVERNMENT ALSO CONTRIBUTE MORE TO THE PENSION PLAN?**

A: Yes. The Ontario government will continue to match total annual contributions from members working in publicly funded schools. Other employers that participate in the pension plan, such as private schools, will also match their employees' contributions at the new higher rates.

11 **Q: CAN YOU EXPLAIN WHAT IT MEANS TO "RECOGNIZE THE CURRENT CONTRIBUTION RATE AS THE BASE RATE"?**

A: The base contribution rate is the contribution level required to fund pension benefits when the plan is in balance (no shortfall or surplus). It is used to project the value of future contributions in a funding valuation. Changing the base rate has no impact on what members contribute to the plan.

Top Plan Funding Q&As – continued

INFLATION CHANGES FOR RECENT RETIREES

12 **Q: WHY IS THE LEVEL OF INFLATION PROTECTION CHANGING FOR CERTAIN PENSIONERS?**

A: OTF and the government have invoked conditional inflation protection to cover part of the 2011 funding shortfall. 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 will continue to match 100% of the annual change in the cost of living.

13 **Q: HOW WILL THIS CHANGE AFFECT RECENT RETIREES?**

A: The change for affected pensioners will be minimal. They will forego about $2 in monthly inflationary increases for three years.

14 **Q: WHY DOESN'T THE CHANGE APPLY TO ALL PENSIONERS, INSTEAD OF ONLY THOSE WHO RETIRED AFTER 2009?**

A: Conditional inflation protection was introduced at the end of 2009 and only applies to pension credit earned after then. Anyone who retired before 2010 is not affected. Under current Ontario legislation pension benefits cannot be reduced retroactively.

15 **Q: DOES THIS CHANGE IN INFLATION PROTECTION AFFECT THE GOVERNMENT?**

A: Yes, the Ontario government and other employers that participate in the Teachers' pension plan will make extra contributions to the pension plan equal to the total cost of annual inflation increases that retirees forgo. The government is also matching the new, higher member contribution rates. (See question 10.)

16 **Q: DIDN'T THE PLAN SPONSORS INTRODUCE CONDITIONAL INFLATION PROTECTION A FEW YEARS AGO? WHY IS THIS PROVISION IMPACTING PENSIONERS NOW?**

A: OTF and the Ontario government introduced conditional inflation protection to pave the way for the elimination of a previous funding shortfall in 2008. Until now, conditional inflation protection has not been necessary to help address a shortfall.

17 **Q: DOES INVOKING CONDITIONAL INFLATION PROTECTION NOW HAVE ANY AFFECT ON THE PENSIONS WORKING TEACHERS WILL RECEIVE?**

A: No. Annual inflation adjustments (also called cost-of-living adjustments) are calculated only after a member retires, based on the plan's funding health at the time. Working teachers do not accumulate a specific percentage of conditional inflation protection on their pension credit. This means the act of invoking 60% conditional inflation protection for three years has no effect on the future cost-of-living increases working teachers will receive.

Future cost-of-living adjustments for the portion of pension credit earned after 2009 will be between 50% and 100% of inflation, depending on the plan's financial health during a teacher's retirement – not today. The plan's financial health is evaluated at least every three years, which means determining the level of inflation protection is an ongoing process that happens after a teacher retires.

Remember, the goal is to pay 100% inflation protection and conditional inflation protection only applies to pension credit earned after 2009. Inflation adjustments for the portion of pension credit earned before 2010 will continue to match 100% of the annual change in the cost of living.

Top Plan Funding Q&As – continued

DOES INVOKING CONDITIONAL INFLATION PROTECTION NOW HAVE ANY AFFECT ON THE PENSIONS WORKING TEACHERS WILL RECEIVE? (cont'd)

Planning to retire soon? 60% conditional inflation protection will be in effect for the next three years because funding valuations are due to the pension regulator at least every three years. If you retire before 2014, you will receive slightly smaller cost-of-living increases for the portion of your pension credit earned after 2009.

Consult the chart to find out whether conditional inflation protection affects you.

Does conditional inflation protection affect you?

Member	Does it affect you?
Retired before 2010	No
Retired after 2009	Yes, but only for pension credit earned after 2009
Retiring in the next three years	Yes, only after you retire and only for pension credit earned after 2009
Retiring more than three years from now	Conditional Inflation protection applies to pension credit earned after 2009, but you are not affected by it being invoked now

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