Ontario Teachers' Pension Plan sponsors to file fully-funded valuation with regulators

Surplus funds to be held in reserve

The Ontario Teachers' Pension Plan (the plan) is fully funded for a fifth consecutive year, underscoring its long-term financial health and sustainability.

As such, the plan's sponsors, Ontario Teachers' Federation (OTF) and Ontario government, have decided to file the January 1, 2018 valuation with the regulators. The valuation shows a contingency reserve.

The sponsors' decision to allocate the surplus to a contingency reserve is intended to reduce volatility in the funded position of the plan and facilitate stability in members' contributions and benefits.

HIGHLIGHTS

- **The $10.3 billion funding surplus as of January 1, 2018 will be allocated to a contingency reserve.**
- **This year's filing has no impact on members' contributions and benefits:**
  - **> 2018 contribution rates will remain at 10.4% of earnings up to the Canada Pension Plan (CPP) limit and 12% of earnings above the CPP limit (or 11% on average).**
  - **> The January 1, 2019 cost-of-living increase for all pension credit will remain at 100%.**

QUESTIONS YOU MAY BE ASKING

1

Q: WHAT'S THE ROLE OF THE CONTINGENCY RESERVE?

A: Retaining a reserve in the funding valuation is beneficial for plan members because it facilitates greater stability of contribution rates and benefit levels in case a future funding valuation shows a decline in assets or an increase in pension costs.

It's aimed at keeping the plan fully funded with "base provisions" as referred to in the Funding Management Policy – meaning an average contribution rate of 11% and full inflation protection on all pension credit.

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Q: WHAT HAPPENED TO THE 2017 SURPLUS?

A: Some of the $11.5 billion surplus reported in the plan's 2016 annual report was used to fully restore inflation protection for pension credit earned after 2009, and decrease contribution rates by 1.1% (from 12% on average to 11% on average). Both changes became effective January 1, 2018.

The remaining surplus funds were reserved to facilitate stability in contribution and benefit levels.

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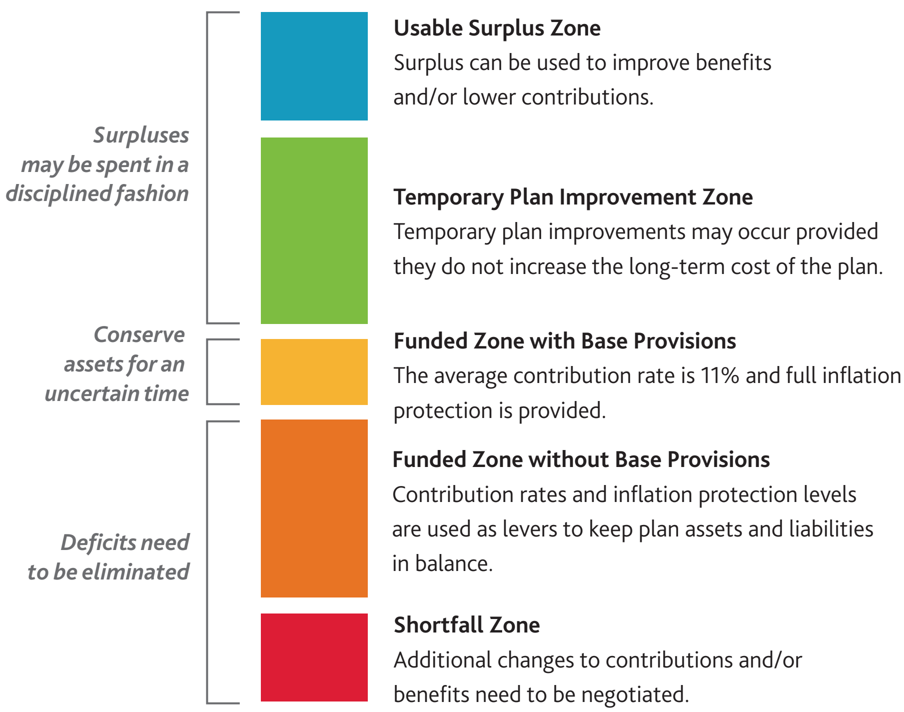
Q: WHAT'S THE ROLE OF THE FUNDING MANAGEMENT POLICY?

A: In 2003, the sponsors adopted a Funding Management Policy (FMP). The FMP provides the sponsors with a guidance framework for decision making when there's a funding surplus or shortfall.

The guidance framework in the FMP is robust, transparent and based on strong actuarial and economic principles. These mechanisms have been utilized by the sponsors for many years, providing guidance in their decisions related to valuation filings. The FMP framework has proven to be very effective and has contributed to the current strong position of the plan.

A key component in the FMP is the concept of funding zones, each defined by a range. The funding zones provide a point of reference for whether action is required by the sponsors. If action is required, guidance is provided on how to use any surplus funds or resolve any shortfall. Specifically, the FMP helps answer the question – when is it possible or necessary to increase or decrease benefits, lower or raise contribution rates, or simply conserve assets for an uncertain time?

Funding Management Policy Zones



For the past few years, the focus of the sponsors has been to return the plan gradually over time to be fully funded with base provisions – an average contribution rate of 11% and full inflation protection on all pension credit. As of January 1, 2018, the plan is providing base provisions to all members and the plan is in the "Conserve assets for an uncertain time" funding zone within the FMP. This means that any surplus funds are reserved to facilitate stability in contribution and benefit levels.

While the FMP outlines preferred mechanisms associated with its various funding zones, it's ultimately the sponsors' responsibility to decide which actions to take.

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Q: IF THERE'S A DEFICIT IN THE FUTURE, CAN WE USE THE RESERVE TO BALANCE THINGS OUT?

A: A future deficit could occur if assets are outweighed by liabilities on a future valuation date. Reserving the $10.3 billion in the fund at this time, and making it available for investing and earning returns, helps to protect the fund against future deficits. In other words, it's a preventative measure against future deficits occurring, not a cure should one occur in the future.

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Q: HOW DO YOU DETERMINE HOW MUCH INFLATION PROTECTION TO PROVIDE?

A: When the plan has a funding shortfall, smaller cost-of-living increases help to bring the plan back into balance. When there's a funding surplus, inflation levels may be partially or fully restored.

Pension credit earned before 2010 is 100% protected against inflation. Annual cost-of-living increases for pension credit earned after 2009 are conditional and depend on three factors:

1. Annual changes in the cost of living, as measured by increases in the Consumer Price Index (CPI).
2. The plan's funding status, which is used to gauge how much of the CPI increase the plan can afford to provide.
3. When you earned your pension credit.

Inflation Protection Levels

PENSION CREDIT	ALLOWABLE LEVELS*	CURRENT LEVELS*
Earned before 2010	100%	100%
Earned during 2010-2013	50% to 100%	100%
Earned after 2013	0% to 100%	100%

*Percentage of annual cost-of-living increase, based on changes in the Consumer Price Index (CPI)

The current 100% inflation level will remain in effect at least until the next funding valuation is filed with the regulators. A funding valuation must be filed at least once every three years.

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IMPACT ON YOUR PENSION

To see how inflation increases affect your annual pension each year, sign in to your Ontario Teachers' online account. The information will be available online in late October, shortly after the annual inflation rate is determined for the following calendar year. Visit this page to register for or sign in to your Ontario Teachers' account: www.otpp.com/members

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Q: HOW DID THE 2018 SURPLUS ARISE?

A: The key factor that led to the 2018 surplus is that plan assets grew faster than liabilities (the cost of future pensions) due to a strong 9.7% return on the plan's investments in 2017.

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Q: DOES THE 2018 SURPLUS MEAN THE PLAN'S FUNDING SHORTFALLS ARE OVER?

A: Shortfalls could happen in the future, however, levers available to the sponsors help manage the plan's funding status. Contribution rates and conditional inflation protection are working to keep the pension plan in balance.

That balance continues to be challenged by rising pension costs due to low interest rates, increasing longevity and long periods of retirement. There can be no assurance of high returns in this complex, rapidly changing and competitive investment environment.

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Q: CAN A MEMBER MAKE ADDITIONAL CONTRIBUTIONS TO THE PLAN?

A: No, contributions to the Ontario Teachers' plan are based on a percentage of salary. The plan isn't set up to take additional contributions from members to improve their benefits.

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Q: WHY WILL SOME GENERATIONS OF MEMBERS RECEIVE DIFFERENT BENEFITS THAN OTHERS?

A: Pension plan provisions change over time and no generation of teachers has received exactly the same benefits as the one before or after it. For example, inflation protection wasn't provided automatically until the mid-1970s, and many older members didn't have an opportunity to retire at an 85 factor or receive a 10-year pension guarantee.

Keep in mind that Ontario's Pension Benefits Act protects the value of pension benefits already earned by working and retired members.

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Q: IS MY PENSION SECURE?

A: Yes, you will receive a pension when you retire. That pension may look different than the pensions of today, just as today's pensions look different than those of 10 or 20 years ago. Keep in mind that the pension plan has $189.5 billion in assets and pays out about $5.9 billion annually in pensions.

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MORE INFORMATION

- Visit the pension plan's website at www.otpp.com/funding
- Talk to your affiliate pension representative