2011 shortfall addressed, conditional inflation protection to be invoked

June 3, 2011 – The Ontario Teachers' Federation (OTF) and the Ontario government are using conditional inflation protection as part of a tentative plan to address a projected $17.2 billion funding shortfall in the Ontario Teachers' Pension Plan. The agreement is subject to final approval by OTF and the government.

- **If you retired before 2010, the change does not affect you.** You will continue to receive 100% inflation protection every year.
- **If you retired after 2009,** the change will result in annual pension increases that are slightly smaller than they would be with 100% inflation protection.

OTF and the government, which sponsor the Teachers' pension plan, also agreed to two other changes to address the 2011 shortfall. These changes, which do not affect retirees, include:

- A 1.1% contribution rate increase for working members, phased in over the next three years
- Recognizing the current contribution rate as the permanent base rate

Plan to address 2011 shortfall

CONDITIONAL INFLATION PROTECTION TO BE INVOKED

This action only affects pensioners who retired *after* 2009. It has no impact on pensioners who retired *before* 2010.

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.

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 annual cost of inflation increases that retirees forgo.

CONTRIBUTION RATES TO INCREASE

Working 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 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.

CURRENT CONTRIBUTION RATE 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 working members contribute to the Teachers' plan. The base rate is used to project the value of future contributions in a funding valuation.

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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