Top Plan Funding Q&As

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Q: HOW WILL THE 2017 SURPLUS FUNDS BE USED?

A: The Ontario Teachers' Pension Plan reported a preliminary $11.5 billion surplus, as of January 1, 2017, on March 29, 2017. The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the pension plan, will use surplus funds to restore full inflation protection for post-2009 pension credit and decrease contribution rates by 1.1%. Both changes are effective January 1, 2018.

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Q: HOW DID THE 2017 SURPLUS ARISE?

A: The 2017 surplus arose through a combination of investment performance and gains attributed to a practice called "asset smoothing". This practice is commonly used by pension plans. At Ontario Teachers', we "smooth" asset gains and losses over a three-year period, which makes our funding ratio, contribution rates and benefit levels less volatile. If smoothing wasn't used, the plan sponsors might have to change contributions and benefits more often to achieve funding stability.

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Q: WHY ISN'T THE WHOLE SURPLUS BEING USED?

A: Some surplus funds are being reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

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Q: WHAT DOES THE 2017 SURPLUS MEAN FOR THE PLAN'S FUNDING FUTURE?

A: Levers available to OTF and the government to 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. The plan's funding position is also vulnerable to market downturns and a volatile investing environment that is not expected to produce the same high returns achieved in the past.

For more details, read Funding Considerations.

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Q: HOW WAS THE AMOUNT OF THE DECREASE IN CONTRIBUTION RATES DETERMINED?

A: Beginning in January 2012, OTF and the government introduced a 1.1% contribution rate increase to help fund the shortfall identified in January 2011. This portion of contribution rates represented special payments being made toward the shortfall reported in 2011. Some of the surplus funds resulting from the January 2017 valuation will now be used to eliminate these special payments.

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Q: HOW IS THE AMOUNT OF INFLATION PROTECTION DETERMINED?

A: Pension credit earned before 2010 is 100% protected against inflation. Annual cost-of-living increases for pension credit earned after 2009 are variable 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

For more information, read How inflation increases affect your pension (238KB PDF).

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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 $175.6 billion in assets, as of December 31, 2016, and pays out about $5.7 billion annually in pensions.

MORE INFORMATION

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