

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) remains fully funded for a thirteenth consecutive year, underscoring its long-term financial health and sustainability.

The plan's sponsors, Ontario Teachers' Federation and the Ontario government, have decided to file the January 1, 2026 valuation with the regulators. The surplus will be classified as a contingency reserve and invested with the plan's overall assets.

The sponsors' decision to classify the surplus as a contingency reserve is intended to facilitate stability in members' contributions and benefits.

What this means for members

The Plan remains fully funded and financially strong. This year's filing has no impact on your contributions, benefits, or inflation protection. The \$31.2 billion funding surplus will be held as a contingency reserve and invested with the Plan's overall assets, helping to support the stability of members' contributions and benefits over time.

Highlights

- The \$31.2 billion funding surplus as of January 1, 2026 will be classified as a contingency reserve.
- This year's filing has no impact on members' contributions, benefits or inflation protection:
 - 2026 member contribution rates will remain at 10.4% of earnings up to the Canada Pension Plan (CPP) limit of \$74,600 plus 12% of earnings above the CPP limit (or 11% on average).
 - The January 1, 2027 increase to pensions in pay for all pension credit will remain at 100% of the Consumer Price Index (CPI) Ratio.

QUESTIONS YOU MAY BE ASKING

1

Q: IS MY PENSION SECURE?

A: Yes. Members can rest assured that their pension payments are secure. Your basic pension income is based on your earnings and years of service in the plan and is not impacted by the investment returns of the plan. In addition, as the plan is fully funded, the January 1, 2027 increase to pensions in pay for all pension credit will remain at 100% of the Consumer Price Index (CPI) Ratio.

2 Q: WHAT WILL THE CURRENT GEOPOLITICAL AND ECONOMIC ENVIRONMENT MEAN FOR THE PLAN?

A: The Ontario Teachers' Pension Plan Board (OTPP), as the administrator of the plan is well positioned to navigate an uncertain and unpredictable investment and geopolitical environment. By adapting to changing market conditions while keeping a long-term perspective and focusing on partnering with businesses and management teams to create value and ensure success across our global portfolio, the OTPP works to continue to deliver on its mission of delivering outstanding service and retirement security for you over the long term.

As described in question 1, members can rest assured that their basic pension income is not impacted by investment returns and that inflation protection can continue to be provided under the filed valuation.

Also, with the decision to file the January 1, 2026 valuation, there will be stability in contribution and benefit levels at least until the next valuation is filed. Funding valuations must be filed at least once every three years, and the next required filing will be as at January 1, 2029.

3 Q: WHY IS THE SURPLUS BEING CLASSIFIED AS A CONTINGENCY RESERVE?

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

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

Q: WHY ISN'T THE SURPLUS BEING USED TO REDUCE CONTRIBUTIONS OR INCREASE BENEFITS?

4

A: The plan's sponsors consider a range of factors when deciding how to manage a funding surplus, including the plan's long-term sustainability, contribution and benefit stability, investment and economic uncertainty, demographics and the cost of future pensions.

In this case, the sponsors have decided to retain the surplus in the plan as a contingency reserve to help keep current contribution rates and targeted inflation protection stable and to provide a prudent cushion against future adverse outcomes.

5 Q: WHAT DISCOUNT RATE WAS USED FOR THE JANUARY 1, 2026 VALUATION?

A: The discount rate is one of the most important assumptions in the funding valuation and plays a key role in assessing whether the pension plan has sufficient assets to meet its future pension obligations. It is used to calculate the present value of the future pension benefits that the plan expects to pay to members as well as the contributions it anticipates receiving.

The discount rate is a long-term assumption and takes into consideration interest rate trends, as well as provisions for plan maturity, risk tolerance and major adverse events.

For the January 1, 2026 valuation, the board maintained a real discount rate of 2.65%. The nominal discount rate was 4.70%, reflecting the 2.65% real discount rate and the 2.00% long-term inflation assumption. The real discount rate continues to reflect the outlook for long-term real returns and prudent provisions for risks including plan maturity, global economic challenges and long-term uncertainty.

6

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

A: The FMP is an important document that provides the sponsors with a guidance framework for decision making when there is a funding surplus or shortfall. A key component in the FMP is the concept of funding zones, each defined by a range. The zones determine when it is possible or necessary to increase or decrease benefits, lower or raise contributions, or simply conserve assets for an uncertain time. Decisions under the FMP are made by the Plan sponsors.

PERMANENT IMPROVEMENT ZONE	TEMPORARY IMPROVEMENT ZONE	FULLY FUNDED ZONE	RESTORATION ZONE
Permanent changes that impact the long-term cost of the Plan are permissible	Temporary plan improvements may occur provided they do not impact long-term cost of the Plan	Conserve assets to protect against uncertain times	Rebalance the Plan by raising contribution rates and/or lowering future inflation protection and other future benefits

7

Q: DOES THE STRONG FUNDING POSITION MEAN THE PLAN IS PROTECTED FROM SHORTFALLS?

A: Shortfalls could happen in the future. While the plan remains fully funded and has a prudent cushion against potential adverse outcomes, risks remain. These include lower-than-expected asset returns, higher-than-expected inflation, demographic changes, plan maturity, global economic challenges and other events that could increase the cost of future pensions.

The plan manages these risks through a diversified investment strategy and a regular review of actuarial assumptions and funding levers such as contribution rates and conditional inflation protection. These mechanisms help the plan remain resilient through changing market and economic conditions.

8

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

A: A future deficit could occur if assets are outweighed by liabilities on a future valuation date. Reserving surplus when a valuation is filed with the regulatory authorities makes it available for investing and earning returns, helping to protect the fund against future deficits. In other words, rather than being a cure, it is a preventative measure against future deficits.

9

Q: HOW DOES INVESTMENT PERFORMANCE AFFECT THE PLAN'S FUNDED STATUS?

A: Investment performance affects the plan's funded status by changing the value of the plan's assets. When investment returns are stronger than expected, the plan's funded status generally improves; the opposite is true when performance is weaker. However, investment performance is only one factor in the plan's funding valuation. Funded status also depends on the long-term cost of future pension benefits, which is influenced by assumptions about investment returns, inflation, interest rates, demographics and other risks. As a result, the plan can remain fully funded even when investment markets are challenging or when investment returns differ from benchmarks. OTTP manages the plan with a long-term perspective and a diversified portfolio designed to support retirement security for members over many decades.

10

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

A: Annual increases to pensions in pay are calculated by comparing the average Consumer Price Index (CPI) for the 12-month period ending in September to the previous 12-month average (the CPI Ratio). This approach smooths out short-term volatility and is similar to the approaches used by many large pension plans. The current levels of inflation will be factored into future increases to pensions as they flow into the averaging period.

The level of inflation protection provided to members is a plan sponsor decision. When the plan has a funding shortfall, smaller cost-of-living increases help to bring the plan back into balance. When there is 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. Changes in the cost of living, as measured by the CPI Ratio as defined above.
2. The plan's funding status, which is used to gauge how much of the CPI Ratio 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 the CPI Ratio.

The current 100% inflation protection level for pension credit earned after 2009 will remain in effect until a subsequent funding valuation updates the amount that is filed with the regulator.

**IMPACT ON YOUR PENSION**

To see how inflation increases affect your annual pension, [register or sign in](#) to your online member account.

11 Q: WHY DO PENSION BENEFITS AND PLAN PROVISIONS CHANGE OVER TIME AND HOW ARE THOSE DECISIONS MADE?

A: Pension plan provisions can change over time in response to changing economic conditions, demographics, legislation and the long-term needs of the plan. As a result, no generation of teachers has received exactly the same benefits as those before or after them.

Decisions about plan provisions are made jointly by the plan sponsors and are carefully assessed for their impact on all members and the long-term sustainability of the plan.

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



MORE INFORMATION

- Visit [the funding section](#) at otpp.com
 - Visit the [Member Help Centre](#)
-