

SPECIAL ISSUE

Update

MAY 2014

Ontario Teachers' Pension Plan (OTPP) Valuation Summary

Based on the agreement of the Ontario Teachers' Pension Plan Partners, the Ontario Teachers' Federation (OTF) and the Government of Ontario, a funding valuation will be filed with the Financial Services Commission of Ontario (FSCO) to amend the inflation protection benefits in the OTPP as follows:

- Restore existing pensioners to the "run-rate" value of their pensions effective January 1, 2015. This means that pensions-in-pay will be increased to the levels they would have been (as of January 1, 2015) had Conditional Inflation Protection (CIP) never been invoked (at 60% in 2012 and 2013, and at 50% in 2014). However, there will not be any retroactive payments to compensate for "foregone inflation", the inflation protection not paid in 2012, 2013 and 2014.
- Restore CIP to 60% on post-2009 credited service (including post-2013 credited service) effective January 1, 2015.

For further information, read the *Special Issue Update* (attached), consult the Ontario Teachers' Federation website or follow the fundingyourpension.com link located within the OTPP information accessible through the Pensions Info for Members button on the Provincial OSSTF/FEESO website.

Inflation Protection Levels Partially Restored by Ontario Teachers' Pension Plan Surplus

The Ontario Teachers' Pension Plan has recently announced a funding surplus of \$5.1 billion resulting in net assets of more than \$140 billion as of January 1, 2013. As a defined benefit plan, the OTPP promises a stream of income for as long as pensioners (or their eligible survivors) live. Each year, an independent actuary prepares a financial assessment of the Plan, based on best-estimate assumptions, examining the assets and liabilities of the Plan, projecting 70 years into the future.

The Ontario Teachers' Federation (OTF) and the Ontario government, as Partners and joint sponsors of the Plan, determine benefit and contribution levels. Based on a preliminary \$5.1 billion funding surplus in the Ontario Teachers' Pension Plan, the Partners have decided to partially restore cost-of-living increases affecting the portion of current retirees' credited service earned after 2009. Filed valuations in 2011 and 2012 had reduced inflation protection levels for this portion of credited service to deal with recent funding shortfalls.



Inflation Protection and Conditional Inflation Protection (CIP)

Once a member retires and begins to receive a pension from OTPP calculated on the formula (2% X # of years of credited service X average of the best five annual rates of pay), annual adjustments are based on the increase in inflation (CPI - Consumer Price Index). This inflation protection benefit preserves the value of our pension for as long as we (and our eligible survivors) collect them.

If CPI increases our gross annual pension increases by the amount of CPI up to an annual maximum of 8%. Inflation increases or decreases may be carried forward if they cannot be put into effect in the year in which they occur. If the CPI increase is higher than 8%, then the unpaid percentage is included in the next year's pension adjustment. In years of deflation, our gross annual pension does not decrease; however, the negative CPI change is carried forward resulting in a decrease to a future year's pension adjustment.

Conditional Inflation protection means that the percentage of inflation protection you will receive in retirement will be conditional upon the funded status of the Plan when you retire. The level of inflation protection for every retiree is based only upon those valuations of the Plan which occur after retirement on credited service earned after 2009 (when CIP was introduced as a feature of the Plan).

Each year retirees will be made aware of that year's adjustment and the value of the pension that would have been received if full inflation protection had been applied. This is called the "run-rate" pension. The difference between the "run-rate" and the pension received is called "foregone inflation". Since this is a matching contributions pension plan, the Government contributes not only on behalf of all active teachers, but makes additional contributions to the pension fund to match foregone inflation (not paid to pensioners) in years when CIP is invoked.

The 2014 Valuation Filing

Two adjustments are being made to increase the gross pensions of teachers who retired in 2010 or later:

First, pensions will be restored to their "run-rate", the value they would have had if full inflation protection had been provided each year. For example, if your gross annual pension is \$48,000, but would have been \$48,050 with full inflation increases, you will receive the monthly increases commensurate with the new value of your pension commencing in January 2015; however, there is no payment made for "foregone inflation" or the \$50 not added to your annual pension when the lower CIP was in place.

Second, in 2015 you will receive inflation protection equal to 60% of the annual CPI increase for the portion of your pension earned in 2010 or later, up from the current level of 50%. The new 60% inflation level will remain in effect until the next funding valuation is filed with the regulators.

The OSSTF/FEESO Bylaws:

The OTF Board of Governors ultimately retains the responsibility for approving the terms under which a valuation is filed. Normally, however, the filing of a valuation activates OSSTF/FEESO bylaws which require that a vote of the contributing members of the Plan takes place prior to final approval of a valuation agreement that would result in either an increase in contributions and/or a decrease in benefits. The upward adjustment of CIP to 60% for credited service earned after 2009 is simply a further implementation of changes that have already been introduced into the Plan for credited service earned after 2009; therefore, a membership vote is not required.

The Member Preference Survey

During the latter part of 2013, the tripartite (OTF, OTPP and Government) Communications Working Group (CWG) had developed a Survey Question Concepts document. The draft survey questions in this document were tested within focus groups (held January 14-16, 2014) and were designed to form the basis of a Plan Member Preference Survey to be conducted from May 16 to June 2, 2014.

The survey was intended to test attitudes towards retirement and the Plan members' preferences between (a) working longer, (b) paying more, or (c) incurring further CIP, as possible options for addressing future Plan funding challenges that may arise.

Given the release of a \$5.1 billion preliminary funding surplus, OTF and the Government decided to postpone the Member Survey. Because this is the first surplus in 10 years, it was decided that a survey that was designed to test member preferences in the context of Plan deficits would confuse matters at this time.

For more information follow the fundingyourpension.com link located within the OTTP information accessible through the Pensions Info for Members button on the Provincial OSSTF/FEESO website or contact Shelley Page, Marc Robillard or Jack Jones at Provincial OSSTF/FEESO by phone (1-800-267-7867 or 416-751-8300) or by email at shelley.page@osstf.ca, marc.robillard@osstf.ca, or jack.jones@osstf.ca.