



Questions and Answers

1. *I have heard that the Ontario Teachers' Pension Plan (the Plan) has a deficit. Is my pension going to be okay?*

Yes, your pension is going to be okay. Whether you are collecting a pension or have just started to contribute, you have no reason to worry.

The Plan had a [funding deficit](#), which is a long-term issue. The Partners, Ontario Teachers' Federation (OTF) and the Government, resolved the issue by introducing conditional inflation protection beginning in 2010. The change will only affect cost of living adjustments if the Partners have to invoke it to deal with some future deficiency. The Plan is not short of money to pay your pension.

2. *What is this deficit that I read about last spring?*

Every year, the Plan has an independent [actuary](#) conduct a [valuation](#). To determine the Plan's ability to meet [the pension promise](#), the actuary compares the [assets](#) to the [liabilities](#). The liabilities are how much money must be set aside now for each pension to be paid for every member of the Plan – active or retired. The valuation is based on a time frame of more than 70 years – conceptually, from the moment the last member was hired on valuation day until that member's pension obligation is fully discharged some 70 years in the future.

If the assets match the liabilities, the Plan is fully funded. If the assets are greater than the liabilities, the Plan has a surplus. If the liabilities are greater than the assets, the Plan has a deficit or funding deficiency.

In December of 2007 the valuation showed a [funding deficit](#) or [shortfall](#) of \$12.7 billion.

3. *What is a valuation and why does the Plan do one?*

All pension plans do funding valuations to help them assess their ability to honour their pension promises. By law, these valuations must be filed every three years with the regulator, the [Financial Services Commission of Ontario \(FSCO\)](#).

The Plan's funding valuation is a snapshot of its current financial position projected over the next 70 years. This snapshot is taken every year on December 31 and it must be filed with the FSCO at least once every three years. It compares the value of the Plan's [assets](#) against the value of the Plan's [liabilities](#) to ensure that the pension promise is properly funded.

If the assets match the liabilities, the Plan is fully funded. If the assets are greater than the liabilities, the Plan has a surplus. If the liabilities are greater than the assets, the Plan has a deficit or funding deficiency.



4. Suppose a final valuation shows a deficit. Then what? Who solves the problem?

By law, the Plan must file a valuation with the [FSCO](#) at least once every three years. The Partners filed a January 1, 2008 valuation prior to September 30, 2008. Preliminary work on this valuation showed a deficit, so the [Partners](#) (the Ontario Teachers' Federation (OTF) and the Government of Ontario) took steps to bring the [assets](#) and [liabilities](#) back into balance before the valuation was filed.

As sponsors of the Ontario Teachers' Pension Plan, the Partners may change either contribution rates or future benefits in order to rebalance the Plan. In this case, the Partners decided to change benefits rather than imposing an additional 5% contribution surcharge. The Ontario Teachers' Pension Plan Board made adjustments to the actuarial assumptions upon which the valuation was based.

5. What's this "conditional indexation" that everyone's talking about?

Conditional Inflation Protection (CIP) or conditional indexing is exactly as it states – inflation protection that is subject to some particular restriction. In the case of the CIP agreed upon as part of the 2008 Filing, the condition or restriction is the funding status of the Plan.

The change puts 50% of pension earned on future service after January 1, 2010 under that condition. Notwithstanding the change, the Partners have stressed that it is their intention to pay 100% of the inflation protection each year going forward and to fund the Plan accordingly. They will only reduce the amount paid if the Plan incurs a deficit larger than can be managed using contribution rate surcharges.

At a valuation, if the Plan's assets and liabilities are in balance or close to it, the Partners will guarantee that the Plan will pay 100% indexation through the next three year valuation cycle. If there is a small deficiency, the Partners will likely choose to resolve the shortfall with a small contribution rate increase. However, if the deficit is a large one, the Partners may choose to reduce the 50% discretionary portion of the annual cost of living adjustment. It would mean that on the portion of your pension you earned after January 1, 2010, you would get something between 50% and 100%, depending on the severity of the shortfall.

6. What is being done about this deficit (shortfall) in the preliminary valuation?

OTF and the Government of Ontario, as the joint sponsors of the Plan, are responsible for deciding how any shortfall will be addressed.

To create a solution, three levers may be used. The Plan Board of Directors and the Partners share responsibility for these three levers.

The Ontario Teachers' Pension Plan Board may

- adjust the actuarial assumptions



The Partners, OTF and the Government of Ontario may

- increase the contribution rates or
- change the benefit structure.

For 2005, the Partners indicated to the Plan their willingness to see a contribution increase, rather than making any change to benefits. At the same time, the Partners were able to persuade the OTPP Board to use a somewhat less conservative assumption to project the real rate of return on Plan assets in the future. The change in assumptions reduced the funding deficit at January 1, 2005 from \$19 billion to \$6 billion. The remainder had to be found through contribution increases of 3.1% spread over three years. The \$6 billion shortfall will be amortized (payments will be made) over 15 years.

For 2008, the Partners drew on the experiences of the 2005 filing. In addition, the Partners had the results of the joint survey last year, as well as the final report of a five-person panel of experts regarding the actuarial assumptions to inform their decisions. Using that information, the Partners decided to change benefits rather than imposing an additional 5% contribution surcharge. The Partners introduced conditional inflation protection beginning in 2010. The change will only affect cost of living adjustments if the Partners have to invoke it to deal with some future deficiency.

Effective Date	Member Contributions		Government/ Employer Contributions	
	Up to YMPE	Above YMPE	Up to YMPE	Above YMPE
From inception	7.3%	8.9%	7.3%	8.9%
January 1, 2007	9.3%	10.9%	9.3%	10.9%
January 1, 2008	*9.6%	*11.2%	10.4%	12.0%
January 1, 2009	10.4%	12.0%	10.4%	12.0%

* For 2008 only, OTF used a \$76 million contingency reserve to offset members' contribution rates.



7. When will changes arising from the 2008 valuation occur?

On January 1, 2009, you'll see the last increment in contribution increases from the 2005 valuation. The changes regarding conditional inflation protection will take effect on January 1, 2010, but only if the Partners are compelled to use them by future circumstances. Members won't see any tangible change in inflation protection until a shortfall comes along that can't be managed by an adjustment to contribution rates.

8. What's going to happen to the 85 factor? I heard we're going back to 90.

No changes have been made to the [85 factor](#).

9. I'm retired. How will any benefit changes affect me?

Quite simply, they won't.

The [Pension Benefits Act, 1990 \(PBA\)](#), protects members who are retired from any changes to their [pension benefits](#).

10. I'm nearing the end of my career. I don't like the notion of any changes to my pension very much. Should I retire now?

The change to inflation protection only affects pension earned after January 1, 2010, and then only if the Partners are compelled to use it by future circumstances. You should not rush into decisions based on rumour and speculation. You have to consider your complete circumstances in deciding when to retire.

11. They've changed the pension benefits. You've said that retirees are protected from changes - what about active members?

The PBA, protects the pension benefits that you have already accrued for service up to the day of the change. A decision has been made to change the inflation protection. The potential effect of the change is proportional to how much of your career you'll have in place by January 1, 2010. Here's a hypothetical scenario to help you understand.

Now consider the following scenario. On January 1, 2010

- you plan to retire when you reach the 85 factor
- you will have taught 30 years by the time you retire
- you have already taught 28 years of your career
- the guaranteed COLA has been reduced to 50% on pension earned after January 1, 2010



In this scenario, you would have already accrued twenty-eight thirtieths of any protection under the current 100% indexation rule. Only the portion of your pension that you accrue (earn) during those last two years would be at risk for partial (50%) indexation.

12. Is indexation likely to be eliminated?

The Partners are in agreement that the last tool they will use to rebalance the Plan is benefit reductions of any kind. It's true that they have made 50% of inflation protection on pension earned after January 1, 2010 discretionary. But the Partners have repeatedly stated their intention both to pay 100% inflation protection and to fund the Plan in that expectation. The Partners will not use that "tool" unless the Plan shows such a significant deficit that contribution rates are insufficient to handle the problem. The likelihood of that happening is quite small.

13. If the Plan is short of money, why does it pay enormous salaries to its administrators?

The Plan is not short of money. [Valuations](#) identify the potential problems well before they occur so that the Plan sponsors can take action to avoid them.

Salaries and bonuses for the Plan's investment staff are tied to investment performance. By any standards, the Plan's performance has been outstanding. The Plan's compensation packages are competitive with the investment industry.

The current increase in [liabilities](#) is due not to poor performance, but rather to falling estimates of future economic growth and low interest rates.

The Plan was established in 1989 with [assets](#) of \$17 billion. Since that time, the senior management has grown those assets to \$108 billion. That is more than a five-fold increase. In that same time, the Partners used \$18 billion in surpluses to improve benefits and to pay off the initial unfunded liability.

14. I think that I already pay enough for my pension. If a contribution rate increase occurs, why should I accept it. Why should I accept this last contribution rate increase of 0.8% on January 1, 2009?

The truth is you don't have a choice. Your pension plan is operated on behalf of all of its members. [Contribution rates](#) are a joint decision of the Partners acting on your behalf as trustees of the Plan. The rates are set to ensure that the pension promise can be kept for all Plan members, active and retired. Paying the contribution rates is a condition of your employment.

The contribution rate for the Plan was set in 1989 when the Plan began. The increase on January 1, 2007 will be the first in more than 15 years.

Since the rates were first set, many significant improvements have been made to Plan benefits.



Current economic conditions mean that steps must be taken now to ensure that the Plan remains able to honour the pension promise into the future.

For most teachers, their pension is their greatest financial asset – perhaps greater even than their family home. It is an asset well worth protecting.

15. How much do I have to pay?

Members contribute at two different rates on gross salary earned:

- On amounts up to the Years' Maximum Pensionable Earnings (YMPE), members contribute at the lower rate.

The YMPE is the portion of your salary on which you also contribute to the Canada Pension Plan. The YMPE for the following year is established by the federal pension authority late in the calendar year.

For 2008, the YMPE is \$44 900.

- On amounts earned above the YMPE, members contribute at the higher of the two listed rates.
- On January 1, 2009, the last of the increases agreed to during the 2005 Valuation will take effect making the two rates 10.4%/12.0%

With the exception of the 2008 calendar year, the contribution rate has been identical for both active members of the Plan and for the matching contributions from the Government and other employers as the table below will illustrate.

Beginning January 1, 2007, you contributed 9.3% of your gross salary on the first \$43,700 that you earned. On any salary above that, you contributed 10.9%. Your contributions will be matched dollar for dollar by the Government or by your employer.

On January 1, 2008, the contribution rates rose by a further 1.1%, but OTF used a \$76 million contingency reserve remaining from earlier negotiations to cover 0.8% of the increase. This means that for 2008 you contributed 9.6% and 11.2% respectively.

On January 1, 2009, your contribution rates will be 10.4% and 12%. Your contributions will be matched dollar for dollar by the Government or by your employer.

You need to remember that a new valuation will be filed no later than January 1, 2008, and that this newer valuation could change the contribution rates for 2009.



Effective Date	Member Contributions		Government/ Employer Contributions	
	Up to YMPE**	Above YMPE**	Up to YMPE**	Above YMPE**
January 1, 2006	7.3%	8.9%	7.3%	8.9%
January 1, 2007	9.3%	10.9%	9.3%	10.9%
January 1, 2008	*9.6%	*11.2%	10.4%	12.0%
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* For 2008 only, OTF used \$76 million contingency reserve to offset members' contribution rates.

16. Why were the surpluses spent on benefit improvements?

At the time that benefit increases were adopted, the declining interest rates that have resulted in the [shortfall](#) were not predictable. Enough of a [surplus](#) existed in the Plan to cover the costs of paying off the Government's initial debt to the Plan and to establish the [85 factor](#).

17. You have referred to the Plan's "[actuarial assumptions](#)" and said that they may be changed to help solve the funding problem. That sounds like a smoke and mirrors solution – just to make the numbers say what you want. Isn't that dangerous?

Actuarial science is the mathematics of risk. [Actuaries](#) use a number of assumptions to project the Plan's financial state 70 years into the future. They consider salaries, the cost of living, mortality rates, interest rates, and many other parameters to predict what will happen to the Plan.

At this time, the assumption having the greatest effect is the predicted interest rate. The lower the rate, the more cash will be required to pay each pension. In looking at the assumptions, the [Partners](#) and their consulting actuaries will work with the Plan and its actuaries to ensure that the assumptions are neither too conservative nor too risky. They will not simply "move the decimal point".

18. I'm not a member of OTF, but I am a member of the Plan. Who looks out for me? (Directors, superintendents, teachers in [designated organizations](#) like some private schools)

OTF consults with the organizations representing members of the Plan who do not belong to OTF (e.g., Ontario Public Supervisory Officials' Association (OPSOA), Catholic Principals' Council of Ontario (CPCO), etc.). This input is very important to OTF.



OTF also distributes information to Plan members through those other organizations. You can subscribe to OTF's service, which will notify you of new information as it is posted on the OTF website.

19. Where else can I look for information on the Plan?

Your first source of information should be the OTF website www.otffeo.on.ca

The Plan website www.otpp.com is also an excellent source of information. You will find many current issues listed on the homepage. Under publications you will find copies of the current and previous annual reports.

20. Are there any other provincial public pension plans experiencing similar increases to their contributions?

The temptation when faced with contribution increases or benefit reductions is always to make simple comparisons from one plan to another. However, direct comparisons are nearly impossible. Pension entitlements, the demographics of the plans, their investment policies, and a host of other complicating factors come into play.

Some other plans have had increases – for example, OMERS. Some have had benefit reductions – for instance, both the Hospitals of Ontario and the Colleges of Applied Arts and Technology Pension Plans have moved to [ad hoc indexation](#) for retirees.

You can view comparisons elsewhere in this package.

21. Do other comparable provincial public pension plans have [contribution rates](#) similar to ours?

Again, what you contribute to your pension is dependent on what you'll get in the end. In order to make a fair comparison, one would have to compare benefit to benefit first to find out if the pensions were of equal value. You pay more for a Mercedes than you do for a Kia.

22. What are actuarial assumptions?

Actuarial assumptions cover many considerations

- mortality
- rate of return on the pension fund
- rate at which salaries will grow
- cost of living (inflation)
- Year's Maximum Pensionable Earnings (YMPE)
- *Income Tax Act* stipulations on maximum pensions
- *Income Tax Act* rules on member contributions
- withdrawal rates
- retirement rates



- disability retirements
- family composition
- age difference between spouses
- reinstatement of inactive members
- purchases of refunded service

Actuaries use the assumptions listed above to calculate the value of your pension from valuation day until the day the Plan's promise to you is fulfilled.

23. I've heard something about teachers living longer contributing to the deficit. Is that true?

Yes, it's true. Mortality is the remaining life expectancy of all Plan members. Actuaries use mortality tables to help them estimate how long a pension will be paid as they develop the Present Value of Future Benefits.

Following the 2005 Valuation, the Partners and the Plan commissioned a study of all assumptions used in valuing the Plan. Part of that study included an assessment of the accuracy of the Plan's mortality assumptions. The researcher discovered that in spite of using very strong assumptions about mortality (teachers really do live a long time in their retirement) the assumptions were not strong enough. Members were living about three years longer on average than the tables predicted. The research predicts that members will live more than 30 years following retirement at an average age of 58.

The cost of funding the Plan to allow for the additional longevity was approximately \$5 billion.

24. What effect did the actuarial assumptions have on the 2005 and 2008 valuations?

What the actuary is really asking is "As of valuation day, does the Plan have enough assets to pay all pensions, including the entitlements for those who are still active members, through the next 70 years?"

Our actuaries have told us that, of the elements listed in the question above, the assumptions that were being used to determine the rate of return on the fund were a little too pessimistic. Through a lot of discussion among the Partners and the Plan, we were able to persuade the Plan Board of Directors to raise their expectations a little.

In 2005, the result of a modest change to the assumption was a decrease in the liabilities from \$19 billion to \$6 billion.

In 2008, a similar change to the assumptions was made on the basis of lowering Plan risk by adopting conditional inflation protection. The resulting actuarial change allowed the Partners to file a balanced valuation on September 30, 2008. This change helped to balance off the additional liabilities from low interest rates and from funding the mortality changes. (see Question #23)

