



The Deal - 2005



Before the Deal

Since 1990, contributions to the Ontario Teachers' Pension Plan have been at the same rate:

- 7.3% of salary up to the **Year's Maximum Pensionable Earnings** (YMPE)
- 8.9% of salary above the YMPE

The YMPE is set by the Canada Revenue Agency yearly and is based on the average industrial wage.

For 2006, the YMPE is \$42,100.



Why Is There a Deal?

Every three years, pension plans must file a **funding valuation** with the **Financial Services Commission of Ontario** proving that the fund is balanced. A **funding valuation** is an assessment of a pension plan's ability to meet its pension promise. On a given day, an **actuary** compares:

- the Plan's liabilities (the **Present Value of Future Benefits** and any other financial obligations) to
- the Plan's assets (the **Present Value of Future Contributions** and all of its other financial holdings – equities, bonds, real estate, etc.).

The valuation assesses whether the Plan is sufficiently funded to meet all of its obligations throughout the next 70 years – in other words whether its **assets** balance its **liabilities**.



Shortfall

If the preliminary work on a valuation of the OTPP shows a **deficit**, as it did for the 2005 valuation, the **Partners** (the Ontario Teachers' Federation and the Government of Ontario) must take steps to bring the **assets** and **liabilities** back into balance before the valuation is filed.

The Plan Board of Directors controls the underlying **actuarial assumptions** upon which the **valuation** is based.

To rebalance the Plan, the Partners may use changes:

- in **contribution rates**
- in future **benefits**



Actuarial Assumptions

Actuarial assumptions are any of the factors in pension [valuations](#) that cannot be known precisely or are not known yet.

The [Plan Board](#) of Directors controls the assumptions, including the key assumption – the rate of return on the pension fund.

Some other examples of assumptions include:

- Inflation rates
- Retirement rates
- Life Expectancy
- Year's Maximum Pensionable Earnings
- Rate at which salaries will grow
- Disability retirements

Other assumptions are much more technical in nature.

Adjusting Assumptions

After lengthy discussions among the [Partners](#) and their consulting actuaries and the [OTPP Board of Directors](#) and its independent actuary, the Board agreed that it was prudent to raise its expectation of future returns by 0.63%.

This change reduced the January 1, 2005 deficit to \$6 billion from \$19 billion.



Why is there a Deal?

[Valuations](#) filed with the Financial Services Commission of Ontario ([FSCO](#)) under the [Pension Benefits Act](#) require the [Partners](#) to amortize (spread) payments on any deficit over a maximum of 15 years.

The Partners' plan to resolve any deficit must be filed with the FSCO as part of the valuation so that the [actuary](#) can take the solution into consideration.

Benefits vs Contributions

The Partners chose *not* to reduce benefits in any way.

As a result, balancing the valuation required a contribution rate increase.

The Partners were able to amortize the deficit over the 15 years following January 1, 2007.



Contribution Rates

On January 1, 2007, the contribution rates for active members will be:

- 9.3% of salary up to the YMPE
- 10.9% of salary above the YMPE

The YMPE is set by the [Canada Revenue Agency](#) yearly and is based on the average industrial wage.

For 2007, the YMPE is \$43,700.

The [required contribution](#) rate for 2008 going forward is:

- 10.4% up to the YMPE
- 12.0% above the YMPE

For 2008 *only*, OTF will use a \$76 million credit reserve from the 1998 pension negotiations to [offset](#) the rate increase by 0.8% of pay.

The Government and other employers will pay 10.4% up to the YMPE and 12.0% above it.

As a result, on January 1, 2008, the contribution rates for active members will be:

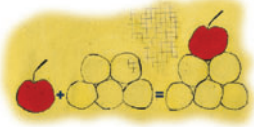
- 9.6% of salary up to the YMPE* (10.4% - 0.8%)
- 11.2% of salary above the YMPE* (12.0% - 0.8%)

Unless future valuations compel the Partners to change the contribution rates, from January 1, 2009 until January 1, 2022 (the remainder of the 15 year amortization period), contribution rates for both active members and the government and other employers will be:

- 10.4% of salary up to the YMPE
- 12.0% of salary above the YMPE

The Government and other employers' matching rate increases on January 1, 2007 by 2%.

It increases by another 1.1% on January 1, 2008, bringing the total increase to 3.1%. This matching rate increase occurs a year earlier than the increase set for member contributions.



Valuation on January 1, 2006

The next mandatory valuation of the OTPP will be January 1, 2008. It will be filed before September 30, 2008.

Since valuations of the Plan respond to a wide range of economic and other factors, the contribution rates could change in response to the 2008 filing.



Other Elements

The Partners and the OTPP have jointly commissioned a survey of a representative sample of Plan members on a range of issues and future choices.

The survey will be conducted by Pollara.

The survey is to be complete by June 30, 2007.



The Partners and the OTPP will jointly commission a study of the actuarial assumptions and economic basis of the Plan's funding valuations by a panel of independent experts.

This study is also to be completed by June 30, 2007.

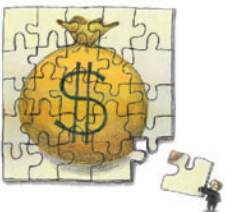


The Partners' Agreement contains guidelines concerning the Plan's funding.

The document is called *The Funding Management Policy (FMP)*.

The FMP describes a funding zone in which the Plan is considered fully funded, that is, its assets match its liabilities.

The Deal raised this zone from 107.5% of the Plan's assets to 110%



Contribution Rate Cap

The Partners agreed that there would be an upper limit of 15% on contribution rates.

Should contribution rates rise to that level at any time in the future, the Partners would consider other alternatives.



The Deal

The current deal means that the funding shortfall for 2005 has been eliminated.

Your pension benefits have been protected.

Contribution rate increases are phased in over three years.

The Assumptions have been adjusted slightly.

There will be a survey of members for input on future choices.

There will be an expert panel to study the assumptions.