



Glossary

Accrue	You accrue or accumulate your pension benefit at the rate of 2% of the average of your “best five” years’ average salary for every year of credit you have in the Ontario Teachers’ Pension Plan (the Plan).
Active Member	A member who is making contributions to the Plan
Actuary	<p>A financial professional who has special training in the mathematics of probability and risk</p> <p>Pension actuaries apply various assumptions to do complex mathematical modeling of pension plans.</p>
Actuarial Assumptions	<p>Any of the factors in pension valuations that cannot be known precisely or are not known yet</p> <p>For example:</p> <ul style="list-style-type: none">• Rate of return on the pension fund• Mortality• Rate at which salaries will grow• Cost of living (inflation)• Year’s Maximum Pensionable Earnings (YMPE)• Retirement rates• Disability retirements• Family composition• Age difference between spouses• Reinstatement of inactive members• Purchases of refunded service
Assets	Assets include the value of everything the Plan owns: equities, bonds, real estate, infrastructure investments, etc., plus the Present Value of Future Contributions.

**Basic Rate**

The Ontario Teachers' Pension Plan has two contribution rate components:

- The Basic Rate
- The Surcharge

The Basic Rate is the contribution rate payable by all members when the Plan is fully funded and is not paying off any deficiency through an amortization of a shortfall.

In 1990, when the Plan became a partnership, the basic rate was 7.3% on all salary earned below the Years' Maximum Pensionable Earnings (YMPE)—that portion of an active member's salary upon which the member also contributes to the Canada Pension Plan—and 8.9% on salary above the YMPE.

The 2008 Filing made the first change to the Basic Rate raising it to 8.3%/9.9% on January 1, 2009.

The Surcharge of 3.1% described below was lowered by 1% making it 2.1% so that the total contributions payable by members and the Government on January 1, 2009 remains 10.4% below the YMPE and 12.0% above it.

"Best Five"

Your pension formula uses the average of your best five years of salary.

The years do not have to be consecutive nor do they have to be the last five years.

**A Bridge to
Canada Pension
Plan (CPP)
Entitlement**

The Plan pays a top-up amount to retirees from the time they retire until age 65.

The payment approximates the amount that you will collect from the CPP in recognition of the integration between the Plan and the CPP.

Most teachers will see their total pension (OTPP + CPP) increase at age 65.



Canada Pension Plan (CPP)

You contribute to the CPP on all earnings between the Year's Basic Exemption (YBE, set at \$3,500) and the Year's Maximum Pensionable Earnings (YMPE, \$47,200 for 2010 and \$48,300 for 2011).

You can collect your Canada Pension as early as age 60.

The CPP is integrated with the Plan.

Canada Pension Plan (CPP) Reduction

The CPP Reduction is the amount by which your pension will be reduced at age 65.

The Reduction is by formula:

$0.0045 \times A \times B = \text{CPP Reduction}$ where:

- "A" is the lesser of the member's average salary or the average of the YMPE for the year in which the member retires and the four previous years
- "B" is the years of credit since January 1966 (the beginning of the Canada Pension Plan).

Sample calculation for a member who retired January 1, 2002 with 30 years of credit and a pension of \$42,000 who turned 65 in 2007:

- The YMPE for:
 - 2001 - \$38,300
 - 2000 - \$37,600
 - 1999 - \$37,400
 - 1998 - \$36,900
 - 1997 - \$35,800
 - Average \$37,200
- $0.0045 \times \$37,200 \times 30 = \$5,022$
- \$5,022 is 12% of \$42,000
- By January 1, 2007, the member's pension would have grown to \$46,777 because of indexation.
- The CPP reduction would have been 12% of \$46,777 or \$5,613.



Canada Revenue Agency (CRA)

A Government of Canada Agency which develops and administers the tax laws for Canada

- Has rules about the tax sheltered nature of Registered Pension Plans (RPPs) like the Plan
- Sets the maximum accrual for RPPs (2% per year of credit)
- Sets the Registered Retirement Savings Plan (RRSP) rates as well

Conditional Inflation Protection (also called Indexation or Cost of Living Adjustment)

Your pension is protected against inflation.

Current Retirees

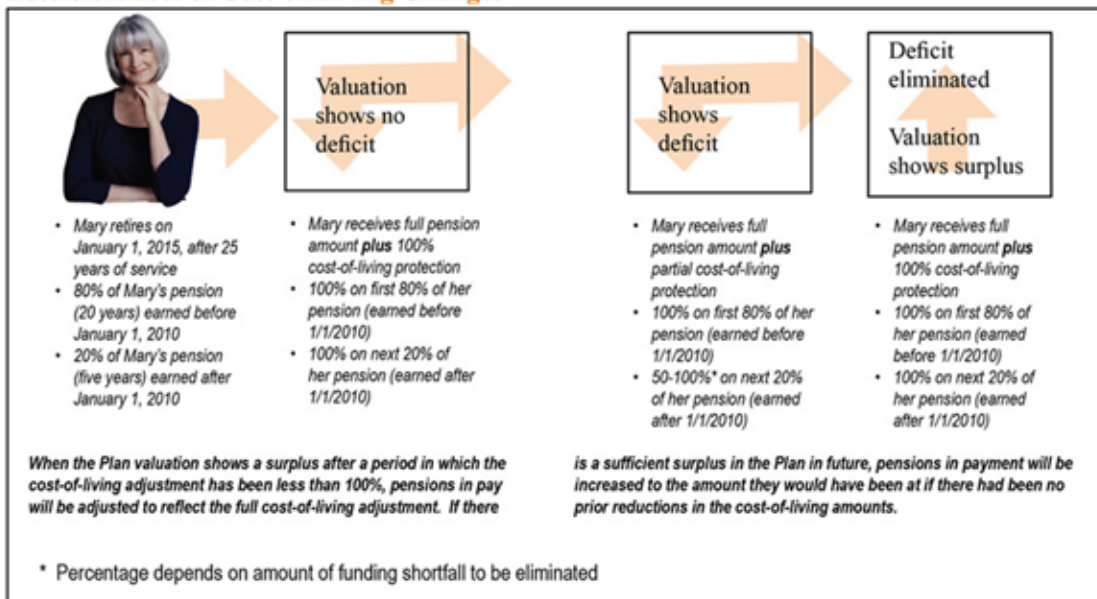
- The pensions of all current retirees are and will remain 100% inflation protected.

Active Members

- On all service accrued up until January 1, 2010, members have 100% inflation protection.
- On all service accrued after January 1, 2010, members will be guaranteed 50% inflation protection with the other 50% dependent on the financial health of the Plan at the time each valuation is filed.

The example below will illustrate how this will work.

Possible Effect of Cost-of-Living Changes



**Consumer Price Index (CPI)**

The all-index CPI, used by the Plan, tracks the cost of a weighted basket of 600 consumer goods and services that are typically purchased by Canadian households each month. The basket includes food, shelter, clothing, furniture, transportation, gas, home energy, recreation and many other items.

The CPI represents the change in the cost of the weighted basket expressed as a decimal.
<http://www.bankofcanada.ca/en/cpi/html>

Contribution Rates

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 2011, the YMPE is \$48,300.

- 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 took 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 illustrates.



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.

Deferred Pension Any member who has two or more qualifying years of service after January 1, 1987, or ten or more qualifying years before that date, is entitled to a deferred pension.

A deferred pension begins when the member reaches normal retirement age, that is, age 65.

Deferred Pension: Reduced Since June 30, 2001, if you are entitled to a deferred pension from the Plan, you may retire as much as 15 years earlier than the normal retirement age (65).

The penalty in that case is 5% for every point you are short of age 65.

Defined Benefit Pension Plan A pension plan for which the pension entitlement of the employee upon retirement is set out in a clearly defined set of rules

The Plan bases pension entitlement on the average of the "best five" years of salary X 2% for each year of credit.

The Plan is a defined benefit plan.

**Defined Contribution Pension Plan**

A pension plan in which each member's pension is determined by the return on the investment of his or her contributions.

The individual member bears all of the risk on his or her investment returns and consequently on his or her pension benefit.

Designated Organizations

Teachers in more than 60 private schools and other organizations outside of publicly funded education are members of the Plan.

Private schools and other organizations may make application to the Partners for designation.

In order to be designated, the schools or organizations must meet a number of strict requirements.

Designated organizations make the same contributions for their members that the Government makes for active members in the publicly funded schools.

(See also Plan Members who are not Ontario Teachers' Federation (OTF) members)

Early Retirement

If you are 50 or over, but do not have your 85 factor, the penalty is 2.5% of your pension for every point you are short of 85 (early retirement).

Financial Services Commission of Ontario (FSCO)

The FSCO regulates insurance companies, pension plans, credit unions, caisses populaires, co-operatives, mortgage brokers, and loan & trust companies.

It is often referred to as the Regulator in pension documents. Further information is available on a wide range of pension related issues at www.fSCO.gov.on.ca

Funding Deficit

Also called a funding deficiency or funding shortfall

If the Plan's liabilities are greater than its assets, then the Plan has a deficit or shortfall.

Inactive Members

Members who are vested but who are not active contributors to the Plan

For example, a former teacher with 10 years of OTPP contributions who now runs a travel business



- Income Tax Act** The federal tax law, administered by the Canada Revenue Agency (CRA), that governs all income tax collection and tax deferrals such as Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs)
- Indexation** The annual adjustment of your pension entitlement to account for inflation
- See Inflation Calculation and Inflation Protection for a full explanation of the process
- Inflation Calculation** Average monthly CPI for the 12 months ending in September
12-month average a year earlier
- For example, the 2006 adjustment:
126.6 (Average monthly CPI for 12 months ending in September 2005)
123.9 (Average monthly CPI for 12 months ending in September 2004)
- =1.022 or 2.2%
- Liabilities** Liabilities include the value of everything the Plan owes: the Present Value of Future Benefits and any other financial obligations such as payroll, outstanding debts, etc.
- Mortality** 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 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.

**Old Age Security (OAS)**

A Federal program designed to supplement income for and provide a small pension for most Canadians over age 65

To collect the full amount of OAS, you must have lived in Canada for 40 years since turning 18 years old.

The maximum OAS benefit is \$524.23/month for 2011.

If your retirement income is \$67,668 or higher, you will have OAS clawed back through deductions from your monthly payments.

At \$107,691, you will pay back all of the OAS.

For additional information: <http://www.servicecanada.gc.ca/en/isp/oas/oastoc.shtml>

Ontario Teachers' Pension Plan Board of Directors

The OTF and the Government of Ontario (the Partners) each appoint four people to sit on the Board of Directors of the Plan.

The Partners also co-appoint the Chairperson.

Partners

The Plan is an equal partnership between the OTF and the Government of Ontario.

The Partners' Committee comprises three appointees from the Ontario Government, usually drawn from the Ministries of Finance and Education, and three appointees from the OTF; the President, the Past President, and the First Vice-President.

Pension Benefit

First and foremost, it's the amount of money you can expect to be paid as a pension following retirement (the average of your "best five" years of salary X your number of years of credit in the Plan X 2%).

Your package of pension benefits also includes:

- Retirement when your age and qualifying years total 85 years (the "85 factor")
- Early retirement after age 50 with a minimal penalty (2.5% of pension) for each year you are short of the 85 factor
- The annual cost of living adjustment to your pension
- Your entitlement to survivor benefits
- The ability to buy back credit for certain leaves
- Options such as the ten-year guarantee or specifying the percentage of spousal survivor benefits

**The Pension Benefits Act 1990 (PBA)**

The *PBA* of the Ontario Legislature governs pensions in the province. The full text of the *PBA* is available at http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90p08_e.htm
The *PBA* guarantees that the pension promise made to you the day you retire will remain unchanged.

Pensionable or Contributory Earnings

The salary on which you and the Government make pension contributions and on which you accrue a pension benefit

Plan Members who are not OTF members

All members of the OTF are automatically members of the Plan, but there are several other groups who are members as well.

Directors of education, superintendents, and principals and vice-principals who are administrators in the publicly funded schools of Ontario are also members.

Their various organizations are as follows:

- The Ontario Principals' Council (OPC)
www.principals.on.ca
- The Catholic Principals' Council of Ontario (CPCO)
www.cpco.on.ca
- The Ontario Public Supervisory Officials' Association (OPSOA)
www.opsoa.org
- The Ontario Catholic Supervisory Officers' Association (OCSSOA)
www.ocsoa.ca
- Association des gestionnaires de l'éducation franco-ontariens
- L'Association des directions et directions adjointes des écoles (ADFO)
www.adfo.org

OTF consults with these organizations on a regular basis and ensures a good flow of information in both directions

(See also Designated Organizations)

Present Value of Future Benefits

The Present Value of Future Benefits is the dollar value on valuation day of all benefits to be paid out by the Plan until its obligations to the last person hired on valuation day are fulfilled.

It includes pensions, disability and spousal pensions, survivor benefits, and commuted value transfers.

**Present Value of Future Contributions**

The Present Value of Future Contributions is the dollar value on valuation day of all contributions made by all active members and the Government between valuation day and the end of the seventy year valuation horizon.

Assumptions are made regarding salary increases and other variables.

Qualifying Year (see also Year of Credit)

The measure of the length of your teaching career used in the 85 factor calculation

- After January 1, 1997, any year during which you taught more than 10 days
- Between September 1, 1990 and December 31, 1996, any year during which you taught more than 20 days
- Prior to September 1, 1990, any year during which you taught for even a day counts as a qualifying year
- If you are buying back an absence, a qualifying year is actual time – e.g., 14 days = 14 days
- In your first and last year of teaching, it is also actual time.

Rate of Return

The rate of return is the ratio of money gained or lost on an investment to the amount of money invested.

Reduced Pension

A “reduced pension” means that early retirement penalties have been applied in a reduction formula.

**Surcharge**

A surcharge is a temporary contribution rate added on to the Basic Rate for a specific length of time. It is added in order to pay off a deficiency (deficit) in Plan funding. The current surcharge was imposed in three stages:

- 2% on January 1, 2007 +
- 0.3% on January 1, 2008 +
- 0.8% on January 1, 2009 =
- Total Surcharge of 3.1%

The Surcharge made the total contribution rates 9.3%/10.9% in 2007, 9.6%/11.2% in 2008, and 10.4%/12.0% beginning on January 1, 2009.

The Government of Ontario took the increase in two stages:

- 2% on January 1, 2007 +
- 1.1% on January 1, 2008 =
- Total Surcharge of 3.1%

The Government has been contributing 10.4%/12.0% since January 1, 2007.

Because of the 1% addition to the Basic Rate, the Surcharge of 3.1% described above was lowered by 1% making it 2.1% so that the total contributions payable by members and the Government after January 1, 2009 remains 10.4% below the YMPE and 12.0% above it.

Surplus

A surplus exists when the Plan's assets exceed its liabilities.

Tax Sheltered Pension Plan

The contributions you make to your pension plan are tax deductible.

The *Teachers' Pension Act* (TPA)

The legislative framework of the Plan

The rules governing the payment of teacher pensions, contribution rates, and so on are found in Schedule 1 to the *TPA*.

http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90tol_e.html

Ten-Year Guarantee

For a small reduction in your pension, your spouse can be entitled to receive your full pension for the first 10 years following your retirement if you die following retirement.



Unreduced Pension

You qualify for an “unreduced pension” at reaching either of your 85 factor or age 65.

An unreduced pension simply means that no penalties have been applied.

An unreduced pension is the average of your “best five” years of salary X your number of years of credit in the Plan X 2%.

Valuation

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.)

Vested

The time at which a member is entitled to a future pension benefit

Before December 31, 1986, vesting happened at ten years.

Since January 1, 1987, vesting takes place at two years.

Year of Credit (See also Qualifying Year)

Your “credit” in the Plan is actual time you taught, tallied up day for day.

A year of credit for most teachers is a full school year (194 days)

For members in twelve month positions, a year of credit is the full twelve months.

Year’s Maximum Pensionable Earnings (YMPE)

The YMPE is the maximum salary upon which you can contribute to the CPP.

For 2011, the YMPE will be \$48,300

It is increased each year according to the average industrial wage index for Canada.

85 Factor

When your age and the number of your qualifying years add up to 85, you have attained the 85 Factor

For example,	your age	56 years
	your qualifying years	<u>29 years</u>
		85 years