New rates • You asked us • Fast facts

TEACHERS' PENSION PLAN ONTARIO

pensionwise™

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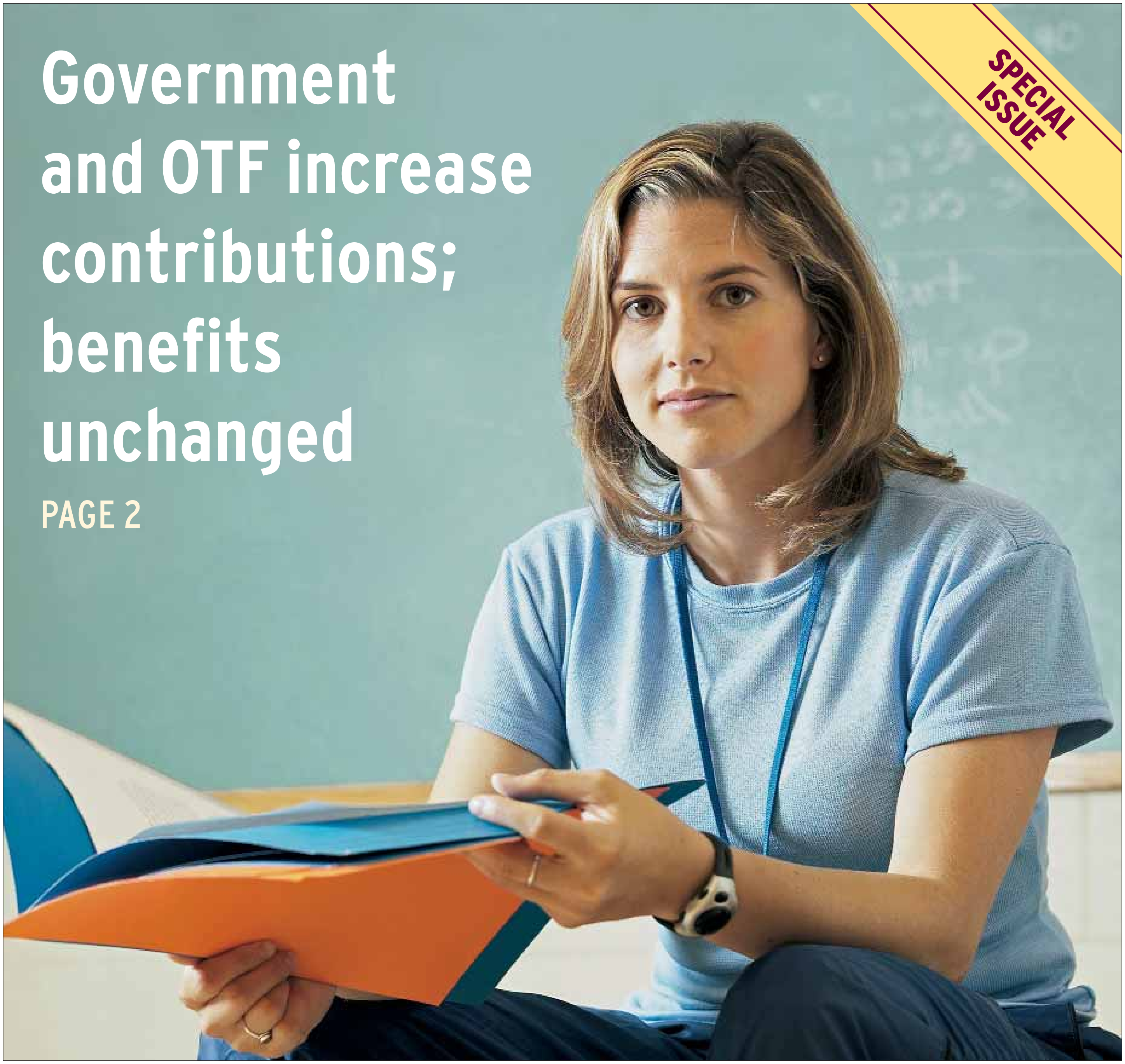

Government and OTF increase contributions; benefits unchanged

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INSIDE THIS ISSUE

Government and OTF increase contribution rates

Contribution increases, totalling 3.1 per cent of your base earnings, will be phased in over three years, beginning Jan. 1, 2007.

Under the new rates, filed with provincial regulators June 30, you will contribute to your pension an additional:

- 2.0 per cent of base earnings in 2007;
- 0.3 per cent in 2008; and
- 0.8 per cent in 2009.

Contributions will increase to an average of 11 per cent of earnings by 2009 from the current eight per cent.

Pension benefits remain the same.

An average teacher earning $65,000 a year will contribute $6,411 to her pension in 2007, $6,606 in 2008, and $7,126 in 2009. The increases will be partially offset by lower taxes because pension contributions are tax deductible.

The Ontario government and designated employers will contribute an additional 2.0 per cent of total member contributions in 2007 and an additional 1.1 per cent in 2008.

The rate increases, the first since 1990, are being introduced by the Ontario Teachers' Federation (OTF) and the Ontario government to eliminate the pension plan's funding shortfall. The shortfall developed primarily because the cost of pension benefits has increased faster than plan assets, despite strong returns on plan investments. In addition, the plan expects future long-term investment returns to be lower than in the past (see page 4).

Since the last rate hike in 1990, members have received benefit improvements, ranging from a permanent 85 factor to a reduction in the CPP offset formula, which results in higher pensions after age 65.

Ontario's Pension Benefits Act requires pension plans to be fully funded over the long term. For the Teachers' plan, this means having enough assets to pay pensions not only today, but 70 years from now, when today's new teachers may still be collecting benefits. ■

An average teacher earning $65,000 a year will pay about $1,300 more in before-tax pension contributions in 2007.

KEY FACTS

No change in pension benefits

Member contribution increases, totalling 3.1% of base earnings, to be phased in over next three years

Funding shortfall will be eliminated

CONTRIBUTION RATES (as a percentage of salary)

YEAR	TEACHERS			GOVERNMENT - DESIGNATED EMPLOYERS		
	UP TO CPP LIMIT*	ABOVE CPP LIMIT	INCREASE	UP TO CPP LIMIT*	ABOVE CPP LIMIT	INCREASE
2006	7.3%	8.9%	–	7.3%	8.9%	–
2007	9.3%	10.9%	2.0%	9.3%	10.9%	2.0%
2008	9.6%	11.2%	0.3%**	10.4%	12.0%	1.1%
2009	10.4%	12.0%	0.8%	10.4%	12.0%	–
TOTAL	–	–	3.1%	–	–	3.1%

**The Canada Pension Plan (CPP) limit is the maximum earnings on which CPP contributions and benefits are based. The limit, which changes annually, is $42,100 in 2006.*

***Member contributions in 2008 are being subsidized by the OTF with a credit reserve from the 1998-2001 pension negotiations.*

How much will you contribute to your pension?

Here's roughly how much members will contribute to the Teachers' pension plan, both this year and in each of the next three years. The increases will be partially offset by lower taxes because pension contributions are tax deductible.

For example, a teacher earning $65,000 a year will contribute an additional $2,015 a year to her pension by 2009 when the full 3.1 per cent increase is applied. However, her take-home pay will shrink by $1,387 a year.

Check your pay stubs each January to see exactly how the increases will affect you. ■

** All numbers are approximate and assume a fixed CPP limit of $42,100. A new CPP limit is set each year.*

BASE	ANNUAL CONTRIBUTIONS*			
SALARY	2006	2007	2008	2009
$30,000	$2,190	$2,790	$2,880	$3,120
$35,000	$2,555	$3,255	$3,360	$3,640
$40,000	$2,920	$3,720	$3,840	$4,160
$45,000	$3,331	$4,231	$4,366	$4,726
$50,000	$3,776	$4,776	$4,926	$5,326
$55,000	$4,221	$5,321	$5,486	$5,926
$60,000	$4,666	$5,866	$6,046	$6,526
$65,000	$5,111	$6,411	$6,606	$7,126
$70,000	$5,556	$6,956	$7,166	$7,726
$75,000	$6,001	$7,501	$7,726	$8,326
$80,000	$6,446	$8,046	$8,286	$8,926
$85,000	$6,891	$8,591	$8,846	$9,526
$90,000	$7,336	$9,136	$9,406	$10,126

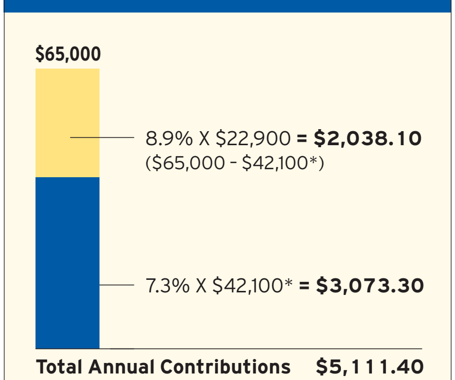
How are contributions calculated?

A two-tiered formula is used to calculate your contributions to the Teachers' pension plan. The formula reflects your participation in the Canada Pension Plan (CPP).

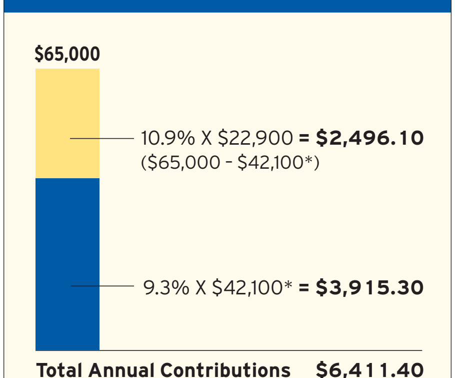
Contributions are lower on earnings up to the CPP contribution and benefits limit and higher on earnings above the limit. The limit, which changes annually, is $42,100 in 2006.

Here's how pension contributions are calculated for Daniel, who earns $65,000 a year. ■

DANIEL'S 2006 CONTRIBUTIONS



DANIEL'S 2007 CONTRIBUTIONS



** The calculations assume a fixed CPP limit of $42,100. A new CPP limit is set each year.*

FAST FACTS*

$42,400
Average unreduced pension

57 years
Average retirement age

29 years
Expected years on pension

$750,000
Average value of pension+

*As of Dec. 31, 2005
+At retirement, 85 factor

FUNDING

Change in assumed return helps address funding shortfall

The funding shortfall in the Teachers' pension plan will be eliminated as a result of increases in both contribution rates and the expected future rate of return on investments.

The January 2005 valuation of the plan, filed with provincial regulators June 30, assumes the pension fund will achieve a 3.725 per cent long-term real (after inflation) return on investments, up from the 3.1 per cent estimated in a 2005 preliminary valuation 18 months ago. The valuations were conducted by an independent actuary to determine the long-term financial health of the plan.

(See Funding 101, page 6)

The assumed future return on investments is one of the key factors used to determine how much money will be available in the plan to pay all promised pensions in the future.

The increase in the assumed rate of return, plus other minor changes in future estimates, reduced the shortfall in the final 2005 valuation to $6.1 billion. This shortfall will be eliminated through increased contributions from members, the Ontario government and designated employers that participate in the plan.

"Choosing funding assumptions is a difficult decision," said Claude Lamoureux, President and CEO of the Teachers' pension plan.

Other major pension plans are expecting future returns ranging from 3.65 to 4.25 per cent.

Claude said if the rate earned by the Teachers' fund turns out to be less than assumed, it transfers the funding burden to future generations. Conversely, if the rate is higher than assumed, it places the shortfall problem on today's teachers.

"While single-digit investment returns may seem unrealistic given the plan's long-term performance, higher returns cannot be achieved consistently. History tells us the returns we've been getting are just not sustainable," Claude said.

He cites a study that showed only one of 16 countries enjoyed a rate of return of more than five per cent, based on a traditional asset mix of 60 per cent equities and 40 per cent bonds, from 1900 to 2000. Only seven countries came in higher than four per cent.

The shortfall developed largely because historically low interest rates caused future benefits (or liabilities) to grow faster than plan assets. When interest rates drop, more money needs to be invested today to pay promised pensions in the future. ■

"While single-digit investment returns may seem unrealistic given the plan's long-term performance, higher returns cannot be achieved consistently. History tells us the returns we've been getting are just not sustainable." – CLAUDE LAMOUREUX, President and CEO

You Asked Us...

ILLUSTRATION: KATHRYN ADAMS

CONTRIBUTION RATES

Q. I hear we will be contributing more than members at many other plans. Why is that?
A. The new contribution rates will be higher than many plans because:
- Benefits provided by the Teachers' plan are generally superior to those provided by other plans.
- The Ontario Teachers' Federation (OTF) and the Ontario government chose to address the entire funding shortfall with higher contribution rates. In contrast, one plan chose to manage its funding problem by making inflation protection on future service conditional on the financial position of the plan.
- Contribution rates – the same since 1990 – have not kept pace with benefit improvements, such as the 85 factor.
- Every plan has a unique membership profile, benefit structure, actuarial assumptions and financial requirements, making direct comparisons difficult.

Q. Will rates change again?
A. The OTF and the Ontario government can increase or decrease contribution rates as required to keep the pension fund healthy. Changes could come as early as 2009, following the filing of the next triennial funding valuation in 2008.

Q. How did you arrive at the new contribution rates?
A. The OTF and the Ontario government needed $6.1 billion to close the gap between assets and liabilities (the cost of benefits). To do this through contribution rates alone required an additional 3.1 per cent of base earnings from every member, matched by the government and designated employers. The OTF and government chose to phase in increases.

Q. Will the new contribution rates affect my RRSP room?
A. A change in contribution rates will not affect how much you are allowed to contribute to your RRSP. The government formula used to calculate your RRSP contribution room is based on the deemed value of the benefit you earn in the Teachers' pension plan. It is not based on how much you contribute to the plan.

Q. I'm young. Will I pay more than I can expect to receive?
A. Under Ontario's Pension Benefits Act, you cannot pay for more than half of the value of the pension you earn after 1986. Any excess amount is refunded to you (or your estate) on termination of membership, death or retirement.

BENEFIT LEVELS

Q. Is my future pension secure?
A. Yes, your pension is secure. It's not unusual for pension plans to have shortfalls in some decades and surpluses in others.

It may be reassuring to know that current pensions and pension benefits earned to date cannot be reduced under Ontario's Pension Benefits Act.

Q. Were benefit cuts considered?
A. In reviewing solutions to the funding problem, the OTF and the Ontario government agreed not to reduce future benefits.

Q. Will my benefits increase in line with the higher contribution rates?
A. No, contribution rates have been managed to fund the existing level of benefits. Also, your pension is based on your average earnings and credit (actual time of your teaching career), not how much you contribute.

FUNDING

Q. Who is responsible for the financial well-being of the plan?
A. The OTF and the Ontario government are responsible for the funded status of the plan, as well as benefit and contribution levels. The plan's Board of Directors and the independent actuary are responsible for the funding valuation and the assumptions on which it is based.

Q. I thought the pension fund had almost $100 billion in assets?
A. The plan has almost $100 billion in assets and pays retired teachers about $3.4 billion a year. That means the plan has enough money to meet its pension payroll for many years. But pension plans require sufficient assets in 50, 60 and 70 years to pay benefits to current teachers who won't retire until well into the future.

Q. How did a shortfall develop when the fund is making so much money?
A. During the past five years, the pension fund has earned $13.3 billion more than the markets in which it invests. Despite this excellent performance, future pension costs (or liabilities) have grown faster than plan assets. This is largely the result of low interest rates. When interest rates drop, pension costs rise because more money must be invested today to pay promised pensions in the future.

For more Q&As, visit the Pension Info section of our website at www.otpp.com

Funding 101

A funding valuation is an assessment of the long-term financial health of a pension plan. Prepared by an independent actuary, a valuation compares pension plan assets (stocks, bonds, etc.) to liabilities (the amount required to pay pensions to all current and retired members).

The valuation is a good measure of a pension plan's bottom line because it looks ahead about 70 years, which is how long the plan needs to exist to pay future benefits promised to all current members.

By law, the plan must file a valuation with pension regulators every three years. If plan assets match liabilities, the plan is in balance. If assets are greater than liabilities, the plan has a surplus. If liabilities are greater than assets, the plan has a shortfall.

A shortfall in a filed valuation requires an increase in contribution rates, benefit reductions or both to balance the fund. ■

Pensionwise™ is published for members of the Ontario Teachers' Pension Plan at a cost of 19¢ a copy.

We appreciate your comments about anything you read in *Pensionwise*. Please contact Debra Hanna at (416) 730-5351 or 1-877-812-7989, or e-mail: dhanna@otpp.com

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BRIEFLY

Measures will help manage bottom line

In addition to contribution rate increases, the following measures are being introduced to help manage the future financial status of the Teachers' pension plan.

- The Ontario Teachers' Federation (OTF), the Ontario government, and pension plan management have committed to a survey this fall to gather member preferences for contribution rate increases vs. future benefit reductions, if a shortfall arises in the future.
- The OTF and the Ontario government have agreed their matching contributions should not exceed 15 per cent of base earnings above the Canada Pension Plan (CPP) limit. The CPP limit, which changes annually, is $42,100 in 2006. If rates must climb higher than 15 per cent to keep the pension plan healthy, reductions in future benefits would be considered.
- The OTF and the Ontario government can improve benefits or reduce contributions only when pension plan assets exceed liabilities (the cost of future benefits) by 10 per cent, up from the current 7.5 per cent requirement. This provides a bigger cushion to avoid funding shortfalls in the future. ■

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