TEACHERS'™ PENSION PLAN
ONTARIO

News briefs • Contribution rates • Fast facts

pensionwise™

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All in the family: Three generations of members

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Pensioner Lloyd Augustus, retired daughter Rosemary Hartley and granddaughter Sara Hartley are all members of the Teachers' pension plan.

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All in the family: Three generations of members

Teachers are retiring earlier and living longer, resulting in families with three generations of members.

One such family is headed by Etobicoke's Mary and Lloyd Augustus, who began teaching in one-room schools a year after the outbreak of the Second World War. The couple retired in 1984 after a combined 88 years of service.

Their son, Grant, became a pensioner almost 10 years ago following a 20-year teaching career, while daughter

Retired teachers Mary and Lloyd Augustus are flanked by (L to R) granddaughter Melissa Hartley, a high school teacher; daughter Rosemary Hartley, a retired teacher; and granddaughter Sara Hartley, an elementary school teacher.

FAST FACTS

62	**57**	**106**	**72**	**2,200**
AVERAGE RETIREMENT AGE IN CANADA	AVERAGE RETIREMENT AGE OF ONTARIO TEACHERS	AGE OF OUR OLDEST PENSIONER	NUMBER OF OUR PENSIONERS AGED 100 OR OLDER	NUMBER OF OUR PENSIONERS IN THEIR 90S

Rosemary Hartley joined our retiree ranks in June. Three grandchildren – Melissa Hartley, sister Sara Hartley and cousin Jason Hubbard – continue the family teaching tradition.

Long lifespans are responsible for other striking numbers: we have 2,200 pensioners in their 90s and 72 aged 100 or older.

Our oldest pensioner, who turned 106 last spring, is eight years younger than the oldest living person in the world – 114-year-old Edna Parker of Indiana.

"When we say we're prepared to still be paying a pension 70 years after a member begins teaching, we really aren't exaggerating," quipped Rosemarie McClean, Senior Vice-President, Member Services.

A typical teacher retiring today can expect to collect a pension for about 29 years, as long as the average teaching career. After that, the pension is often paid to a survivor for five more years. But some pensioners outlive all the norms.

One 98-year-old Toronto woman has been collecting a survivor pension for 58 years. The widow began receiving a pension the same day the Berlin airlift ended on Sept. 30, 1949. She was only 40 when her husband died after a 17-year teaching career.

"Fortunately, pensions are paid for life so there's no danger of outliving your money," said Ms. McClean.

FLIP SIDE TO NUMBERS

Long lifespans and lifetime pensions may be comforting news, but there is another side to the numbers: pension liabilities (the cost of future pensions) are getting larger and there are fewer contributing teachers for each retiree.

"This creates a challenge for future generations of plan members if our investments do not meet the rate of return requirements in the future," said actuary Barbara Zvan, Teachers' Senior Vice-President, Asset Mix and Risk.

Ms. Zvan said higher-than-projected life expectancies, a dropping teacher-to-pensioner ratio, low real (after inflation) interest rates and large swings in long-term investment returns make it increasingly difficult to keep the plan financially balanced.

"The demographic changes are here to stay. The Ontario Teachers' Federation and the Ontario government, as the pension plan sponsors, have the difficult job of addressing funding pressures, while keeping the plan affordable for young teachers. And we're doing everything we can to help them," she said.

More information on the plan's financial status will be presented in the annual *Report to Members,* scheduled for release in April. ■

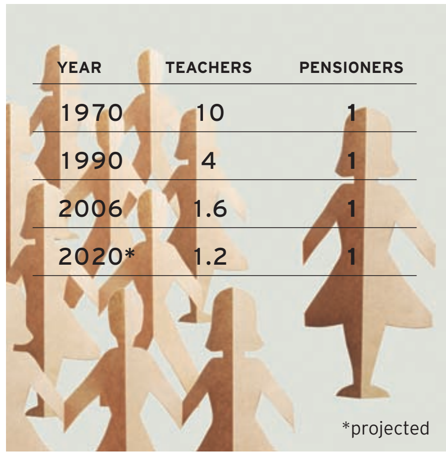
Changing demographics pose funding challenges

Changing plan demographics make it increasingly difficult to meet growing pension obligations with affordable contribution rates, and put additional pressure on the fund's investment program.

PAYMENTS EXCEED CONTRIBUTIONS

The plan's annual pension payments are double what it collects in contributions each year.

TEACHER-TO-PENSIONER RATIO DECLINES



YEAR	TEACHERS	PENSIONERS
1970	10	1
1990	4	1
2006	1.6	1
2020*	1.2	1

*projected

Overcoming any future shortfalls by increasing contribution rates is increasingly difficult with a declining ratio of contributing teachers to pensioners.

TEACHERS RETIRE EARLIER AND LIVE LONGER

YEAR	AVERAGE AGE AT RETIREMENT*	LIFE EXPECTANCY	PROJECTED YEARS ON PENSION
1970	62	82	20
1990	58	83	25
2006	57	86	29

*pension start date

A typical teacher collects a pension for 29 years, about the length of an average teaching career.

Are your retirement savings on track?

Most teachers in Ontario can look forward to a secure financial future.

A typical career teacher retires today with a starting pension of about $44,000. This amount is reduced by roughly $5,400 when the teacher turns age 65 and qualifies for an unreduced retirement pension from the Canada Pension Plan (CPP).

Career teachers usually find they can live comfortably in retirement with income from their Teachers', CPP and Old Age Security (OAS) pensions. However, if you began teaching after age 35, have lengthy breaks in service or anticipate heavy expenses in retirement, you may need to supplement your government and Teachers' pensions with your own savings.

Follow these four steps to see whether your retirement savings are on track.

1. Figure out how much you will need in retirement.
2. Estimate your Teachers' pension income.
3. Estimate your income from government pensions.
4. Compare your combined pensions (steps 2 and 3) to your desired income (step 1) to identify a possible gap.

STEP 1: FIGURE OUT HOW MUCH YOU WILL NEED IN RETIREMENT

Conventional wisdom suggests you will need 70 per cent of your pre-retirement income to live comfortably in retirement. However, your lifestyle, expenses, debt and assets, both before and after you retire, may dictate a need for more or less than that amount.

For example, expensive hobbies, dependent children and a mortgage will require a high income replacement ratio, perhaps as much as 100 per cent of your salary at retirement. On the other hand, you may require as little as 50 per cent if you retire shortly after paying off your mortgage and children's education.

When calculating your retirement income needs, determine what you will need as a percentage of your take-home pay. (See article, *Fewer deductions stretch pension dollar in retirement.*)

STEP 2: ESTIMATE YOUR TEACHERS' PENSION INCOME

Once you know how much you will need, it's time to figure out how much you will get. The first step is to estimate your pension income from the Teachers' pension plan.

You can get a personal estimate online at *i*Access Web, the secure members-only section of our website at www.otpp.com. Use the calculator, which is linked to your personal pension file, to generate and compare pension estimates based on various what-if scenarios.

Generally, you can estimate your pension as a percentage of your pay by multiplying your years of credit in the Teachers' pension plan by "2". For example, if you retire with 29 years of credit, your Teachers' pension will provide about 58 per cent of your salary at retirement (or about 51 per cent for a typical teacher after the CPP reduction is applied at age 65).

STEP 3: ESTIMATE YOUR CPP AND OAS PENSIONS

Most teachers qualify for a pension from both the Canada Pension Plan (CPP) and Old Age Security (OAS).

A typical career teacher who retires at age 57 can expect to collect about $5,400 from CPP at age 60.

Most teachers are also eligible for full OAS, which provides as much as $6,000 a year, starting at age 65. (OAS is clawed back beginning with total net income of $63,500.)

Contact the government for pension estimates or visit their website for information at www1.servicecanada.gc.ca.

Once you have estimated your government pensions, convert the sum into a percentage of your pre-retirement income.

STEP 4: COMPARE WHAT YOU NEED TO WHAT YOU WILL GET

For the final step, see what percentage of your pre-retirement salary you can expect from your government and Teachers' pensions. Compare this number to the income needs you calculated in Step 1. The difference between your expected and desired income represents the gap you must fill with income from other sources. This could include income from employment, investment returns, RRSP savings and other sources. ■

Buyback provides better return than RRSPs

The RRSP season is about to heat up. If you have money to invest for your retirement, should you contribute to an RRSP or buy back credit in the Teachers' pension plan? While it almost always makes economic sense to buy back, there are other factors to consider. Use this chart to weigh the pros and cons of the two options.

FEATURE	RRSP	BUYBACK
Flexibility	You can withdraw funds before retirement, subject to tax deductions. When you retire, you can convert your RRSP to different income arrangements.	Funds cannot be cashed in and will be used to boost your pension.
Investment returns	How much you get in retirement depends on how well your investments perform and interest rates in effect when you convert your RRSP to retirement income.	A buyback will increase the value of your pension. Teachers' pensions provide a pre-determined retirement income for life, are protected against inflation and include survivor benefits.
Security	Your principal may not be guaranteed, depending on where you invest.	Your pension is assured, based on your years of credit and best-five years of salary.
Retirement date	Your contribution has no direct effect on your retirement date.	If you buy back a school year in which you had no previous credit, you may be able to retire earlier with an unreduced pension.
Tax break	Your contribution is fully tax deductible, provided you have enough RRSP contribution room.	Your contribution is fully tax deductible, provided you have enough RRSP contribution room. For more information read, *The tax implications of buying back credit,* available in the publications section of our website at www.otpp.com.
Cost	Your cost equals your contribution. Investment management fees and other expenses may also apply.	You contribute roughly what you would have had you continued to work during your period of absence, plus interest. The government (or designated private employers) match your contributions. (In 2008 they pay a little more as noted on page 7.)
Deadlines	You can carry forward any unused RRSP contribution room from one tax year to another.	You must buy back credit in *one* lump-sum payment within five years of the end of your absence or you forfeit the right to buy back.
Fees and commissions	Management fees and sales commissions may apply.	The Teachers' plan does not gain or lose if you buy back.

Fewer deductions stretch pension dollar in retirement

Deductions take a big chunk out of your pay. When planning your retirement income needs, remember that most deductions stop when you leave the workforce, including pension contributions, federation dues, employment insurance contributions and long-term disability premiums.

Income tax and optional medical insurance premiums may be your only deductions in retirement, and tax deductions are generally lower to reflect your reduced income.

In addition to lower deductions, many pensioners have fewer expenses in retirement as dependants leave home and mortgage payments taper off.

To get a personalized after-tax pension estimate, visit *i*Access Web, the secure members-only section of our website at www.otpp.com. If you aren't registered for this service, call 416-226-2700 or 1-800-668-0105, or download and complete the *i*Access Web registration form on our website.

For information on post-retirement medical insurance, contact your employer or insurance providers, such as Ontario Teachers' Insurance Plan (OTIP) or the Retired Teachers of Ontario (RTO/ERO). ■

The top 8 pension survey questions

The last issue of *Pensionwise* highlighted findings of a pension survey conducted last spring for the Ontario Teachers' Federation (OTF), the Ontario government and the Ontario Teachers' Pension Plan.

The survey gauged member preferences for changes in pension benefits or contribution rates if required to address possible future funding shortfalls in the pension plan.

Answers to the top 8 questions arising from the release of the survey results follow.

1 Could you recap the key findings from the survey?

The survey showed:

- High member awareness of key plan provisions, such as the 85 factor.
- Members would be willing to contribute an average maximum of 12.3 per cent of their earnings to preserve their current pension package.
- About half of members would support making future cost-of-living increases dependent on the financial health of the pension plan, if contribution rates were already at their preferred maximum level. Inflation increases are now provided automatically.

2 What happens to the member survey results?

The survey was designed to help the OTF and the government understand member preferences for dealing with possible future funding shortfalls. Only the OTF and the government have authority to change the plan's contribution rates and pension provisions. They also share responsibility for keeping pension plan assets and liabilities balanced, as required by law.

3 I understand members supported the idea of "conditional" inflation protection when asked about possible benefit options to keep contribution rates affordable. What does this mean?

Members were asked how much they would be willing to pay to maintain their current pension benefits. They were then asked to rank their preferences for pension changes if necessary to keep contributions from rising above this level. The majority of respondents preferred conditional inflation protection over two other options tested in the survey – changing the 85 factor to a 90 factor and reducing monthly pensions for future service by 10%.

Changing inflation protection is one option the Ontario Teachers' Federation and the Ontario government, the plan's sponsors, could consider if required to address a future funding shortfall. Of course, any change would affect only future pension service. Pension benefits cannot be changed retroactively.

Under current provisions, pensions automatically keep pace with changes in the cost of living. With "conditional" inflation protection, changes in the cost of living would be made as long as the plan had sufficient funds for the increase. If conditional inflation protection were introduced, it could apply only to that portion of your service you accumulate after the change is made.

For example, if the sponsors introduced conditional inflation protection in your 15th year of service and you retired with 30 years of service, half of your pension automatically would keep pace with cost-of-living increases and increases for the other half would be conditional on the financial health of the pension plan.

4 Who was surveyed?

Members were randomly selected to participate in the survey. A total of 2,820 active members, representing a cross-section of the membership, were interviewed by POLLARA, an independent research firm. A sample of this size accurately reflects the views of the plan's 167,000 working members at a 97 per cent confidence level, 19 out of 20 times. Pensioners were not surveyed because any changes in future contribution rates or pension provisions would not affect them.

5 I don't agree with the survey results. Who should I talk to?

As always, you can contact your federation representative or the OTF directly to discuss your views on the pension plan.

6 Who owns pension surpluses and shortfalls?

Members and the Ontario government (or designated employers for non-public schools) share responsibility for the risks and rewards of running the pension plan. The two groups share surpluses in good times and responsibility for shortfalls in bad times.

7 Will there be another funding shortfall in the near future?

We don't know yet. The next funding valuation, or statement of the plan's assets and future liabilities (pension costs), must be filed with provincial regulators by September 2008. In preparation for the filing, the OTF, the Ontario government and the pension plan commissioned an independent review of the assumptions on which pension plan assets and liabilities are based to ensure they are appropriate for the pension plan.

8 What if there is a funding shortfall in 2008?

If liabilities are greater than assets, the plan has a shortfall. A shortfall would require an increase in contribution rates, a reduction in pension benefits to be earned in the future, or a combination of the two to bring the fund back into balance. ■

MORE INFORMATION To read the survey report, please visit our website at www.otpp.com and follow the Member Survey link from the home page.

HOW YOUR PENSION DOLLAR IS SPENT

For every dollar required for your future pension:

- about 65 cents covers your basic pension package, including survivor benefits and the CPP offset;
- about 25 cents ensures your future annual pension will keep pace with changes in the cost of living; and
- about 10 cents covers the 85 factor, which enables you to retire with an unreduced pension 2.5 years earlier than you could under the 90 factor.

Contribution rates rise slightly in 2008

The second in a series of three contribution rate increases, totalling 3.1 per cent of earnings, takes effect with your first pay in January.

The Ontario Teachers' Federation (OTF) and the Ontario government increased contribution rates to address the 2005 shortfall in the pension fund.

In 2008, teachers will contribute an extra 0.3 per cent of their pay to their pension. This amounts to $195 more in annual pension contributions for an average teacher earning $65,000. The higher rates will be partially offset by lower taxes because pension contributions are tax deductible.

In 2007, you contributed 2.0 per cent more of your earnings to your pension and in 2009 you will pay a further 0.8 per cent, subject to the results of a financial review of the pension plan in 2008.

The 2008 contribution rates are:

- 9.6 per cent of pensionable salary up to $44,900; and
- 11.2 per cent of pensionable salary above $44,900.

The Ontario government and participating private employers, which normally match total member contributions, are spreading the total 3.1 per cent rate increase over two years instead of three. ■

Teachers gear up to retire online

About 2,500 teachers, or 75 per cent of retiring members, are expected to apply for their pension online by the end of June.

Teachers can apply online in six easy steps at *i*Access Web, the secure members-only section of our website at www.otpp.com.

The online process is part of a personal one-stop Retirement Centre that also allows members to:

- create and compare pension estimates based on various what-if scenarios;
- select survivor benefit options;
- link to a buyback calculator;
- verify personal information; and
- track the processing of their pension application.

If you haven't signed up to use *i*Access Web, call 416-226-2700 or 1-800-668-0105, or download and complete the *i*Access Web registration form at www.otpp.com.

Biovail agrees to settle class-action lawsuit

Drug maker Biovail Corp. has agreed to pay US$138 million to settle a class-action lawsuit co-led by the Teachers' pension plan.

The agreement is the second largest settlement of a securities case involving a Canadian issuer, behind the US$2.4 billion settlement Nortel agreed to pay shareholders in 2006. The Teachers' plan also co-led the Nortel class-action suit.

"This is an excellent recovery on behalf of the class and the teachers for whom we invest," said President & CEO Jim Leech.

The Biovail settlement, subject to approval of the United States District Court in New York, covers most investors who bought shares of the company from Feb. 7, 2003, to March 2, 2004.

Pension fund buys governance service

The Teachers' pension fund now owns Glass, Lewis & Co., the world's second largest provider of investment research and governance services.

The fund purchased the San Francisco-based company in October for US$46 million.

"Corporate governance has always been an important issue for institutional investors like Teachers'," said Brian Gibson, Senior Vice-President, Public Equities.

Glass Lewis will continue to market its research and proxy advisory services to money managers and institutional investors around the world. ■

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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