TEACHERS' PENSION PLAN ONTARIO

pensionwise™

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Inflation protection changes PAGE 2

INSIDE THIS ISSUE

OTF and government change cost-of-living provision

The Ontario Teachers' Federation (OTF) and the Ontario government have advised pension plan management of a change in the way cost-of-living increases will be determined after you retire.

The change paved the way for the elimination of the $12.7 billion funding shortfall reported earlier this year.

Inflation increases for pension credit earned after Dec. 31, 2009, will range from 50 to 100 per cent of the change in the cost of living, depending on the plan's financial status.

The change does not affect current pensioners or pension credit earned by teachers up to Dec. 31, 2009.

Pensions being paid to retired members and the value of pension benefits already earned by working members are protected by legislation.

Jim Leech, President and CEO of the Ontario Teachers' Pension Plan, said the change will help the pension plan manage future funding challenges stemming from low interest rates, increased life expectancy and the risk that investment returns could fall short of the growth in plan liabilities.

"The cost-of-living change follows extensive research and careful consideration of the impact on all stakeholders. It enables us to construct an asset mix that is better able to earn the long-term returns required to pay teachers' pensions and absorb periods of market volatility," he said.

The OTF and the government also decided not to increase contribution rates beyond the 0.8 per cent increase scheduled for Jan. 1, 2009. That increase was announced more than two years ago to help eliminate a 2005 funding shortfall. In 2009, members will contribute:

- 10.4 per cent of their salary up to Canada Pension Plan (CPP) contributions and benefits limit; plus
- 12.0 per cent of any salary above the CPP limit.

The CPP limit, which changes annually, is $44,900 in 2008.

The Ontario government and designated employers that participate in the pension plan will continue to match total employee contributions. ■

HIGHLIGHTS

$12.7 billion funding shortfall eliminated

Cost-of-living provision changed for credit after Dec. 31, 2009

No rate hike beyond scheduled 2009 increase

How will the cost-of-living provision work?

Annual cost-of-living increases will be based on two components:

1 The portion of your pension credit earned up to Dec. 31, 2009, will still be 100 per cent protected against changes in the cost of living.

2 The portion of your pension credit earned after Dec. 31, 2009, will be 100 per cent protected against cost-of-living increases, as long as the plan has sufficient assets. If the plan has insufficient assets, cost-of-living increases for pension credit earned after Dec. 31, 2009, will be between 50 and 100 per cent of the change in the Consumer Price Index (CPI), depending on how much the plan can pay.

There may be years when the plan provides less than 100 per cent inflation protection because of a funding deficiency. If the plan returns to a surplus position, the OTF and the government can decide to resume paying full inflation protection. If there's sufficient surplus, the OTF and the government could decide to further increase future payments to the level they would have attained had full inflation protection been in place at all times.

The Ontario government is seeking legislative authority to make extra payments to the pension plan equal to any cost-of-living increases members forgo due to a funding deficiency. For example, if the pension plan paid $500,000 less in inflation payments, the government would contribute an extra $500,000 to the fund. This ensures the government continues to pay its share of pension costs. ■

How the cost-of-living change will affect members

Here's how the cost-of-living change could affect three fictitious members — one new teacher, one mid-career teacher and one teacher nearing retirement.

Each example assumes the teacher retires with 25 years of pension credit and an annual $40,000 pension. The examples show how an annual two per cent inflation increase would affect each member based on a cost-of-living increase of:

- 100 per cent of the CPI increase; or
- 75 per cent of the CPI increase; or
- the minimum 50 per cent of the CPI increase.

Keep in mind that inflation protection for credit earned up to Dec. 31, 2009, will equal 100 per cent of the cost-of-living increase, while credit earned after Dec. 31, 2009, could range from 50 to 100 per cent of the increase. ■

Keeping the pension plan healthy provides security for such teachers as (from left to right) Veronica Castellon, Dennis Ku and Sybil Reburn of John Wanless Junior Public School in Toronto.

AARTI – NEW TEACHER

Aarti has five years of pension credit when the cost-of-living change is introduced on Jan. 1, 2010. Full (100 per cent) inflation protection will be:

> guaranteed for 20 per cent of her pension (five of 25 years of credit)
> dependent on the plan's financial status for 80 per cent of her pension (20 of 25 years of credit)

Here's how much Aarti's pension will increase, depending on the level of inflation protection provided.

	100%*	75%*	50%*
FOR CREDIT EARNED UP TO DEC. 31, 2009	$160	$160	$160
FOR CREDIT EARNED AFTER DEC. 31, 2009	$640	$480	$320
TOTAL ANNUAL PENSION INCREASE	**$800**	**$640**	**$480**

*Percentage of cost-of-living increase for credit earned after 2009

ANDREW – MID-CAREER TEACHER

Andrew has 12.5 years of pension credit when the cost-of-living change is introduced. Full inflation protection will be:

> guaranteed for 50 per cent of his pension (12.5 of 25 years of credit)
> dependent on the plan's financial status for 50 per cent of his pension (12.5 of 25 years of credit)

Here's how Andrew's pension will increase, depending on the level of inflation protection provided.

	100%*	75%*	50%*
FOR CREDIT EARNED UP TO DEC. 31, 2009	$400	$400	$400
FOR CREDIT EARNED AFTER DEC. 31, 2009	$400	$300	$200
TOTAL ANNUAL PENSION INCREASE	**$800**	**$700**	**$600**

*Percentage of cost-of-living increase for credit earned after 2009

MARY – NEAR RETIREMENT

Mary has 20 years of pension credit when the cost-of-living change is introduced. Full inflation protection will be:

> guaranteed for 80 per cent of her pension (20 of 25 years of credit)
> dependent on the plan's financial status for 20 per cent of her pension (five of 25 years of credit)

Here's how Mary's pension will increase, depending on the level of inflation protection provided.

	100%*	75%*	50%*
FOR CREDIT EARNED UP TO DEC. 31, 2009	$640	$640	$640
FOR CREDIT EARNED AFTER DEC. 31, 2009	$160	$120	$80
TOTAL ANNUAL PENSION INCREASE	**$800**	**$760**	**$720**

*Percentage of cost-of-living increase for credit earned after 2009

Pensions safe amid market turbulence

Members need not worry about pension security because of current market turmoil, said Jim Leech, President and CEO of the Ontario Teachers' Pension Plan.

"While we expect market conditions to adversely affect our performance in 2008, you can rest assured your pension will be there for you. Contributions and benefits can change during your career, depending on the plan's funding status, but your pension is secure," Jim said.

Jim Leech

Unlike other retirement savings vehicles, such as RRSPs, your starting pension is not dependent on the value of the fund on the day you retire. Your pension is defined by a formula that takes into account your years of credit and average earnings.

Furthermore, legislation protects pensions being paid to retired members and the value of benefits already earned by working members.

"The situation in financial markets is unprecedented. We're in uncharted waters and it's not clear when the turbulence will end," Jim said. "We know there will be setbacks from time to time, but it's important to remember that long-term performance counts most for pension plans."

Bob Bertram, Executive Vice-President, Investments, said the plan will continue to invest to achieve the long-term objective of paying teachers' pensions.

"In times of turmoil, the best response is to focus on the basics and not to overreact. Our experienced team has managed through market cycles before," he said.

Today's markets illustrate the importance of being diversified across asset classes, industries and geographic areas, Bob said.

"We hold significant investments outside stock markets in fixed income, real estate and infrastructure to spread out investment risk," he added.

The pension plan reports annual investment performance each April. Results will be presented, as usual, in the *Report to Members* in the spring. ■

Plan maturity creates funding challenges

Chaotic financial markets did not cause the 2008 funding shortfall.

The shortfall arose before the markets turned sour because the cost of future pensions grew faster than plan assets, despite good investment returns to the end of 2007.

Chief among the problems is low interest rates. When interest rates are low, the plan needs more money today to pay pensions in the future.

Plan demographics have also increased pension costs. New mortality studies show the average female teacher retiring today can expect to live until age 90, three years longer than the average male. This means a typical teacher is expected to collect a pension for 31 years, about five years longer than the average teaching career.

Cost-of-living changes, announced Oct. 1, 2008, by the Ontario Teachers' Federation (OTF) and the Ontario government, paved the way for the elimination of the 2008 shortfall. While the changes will help staff manage funding deficiencies, the Teachers' plan is still mature, a state summed up by three key ratios:

1 THE DECLINING RATIO OF ACTIVE MEMBERS TO PENSIONERS

This means there are fewer people contributing to the plan, compared to the number drawing pensions. There are currently 1.6 teachers to every pensioner, compared with 4 to 1 in 1990.

2 BENEFIT PAYMENTS EXCEED CONTRIBUTIONS RECEIVED

In 2007, the pension plan paid $4 billion in pension benefits, $1.9 billion more than it received in contributions. As a result, investment returns play an increasingly critical role in the plan's ability to meet its obligations.

3 FUTURE CONTRIBUTIONS REPRESENT A SHRINKING PERCENTAGE OF PLAN ASSETS

In 1990, the value of future contributions comprised 42 per cent of plan assets; now they represent only 27 per cent. ■

MORE INFORMATION:

- Visit our website at www.otpp.com
- Visit the OTF's website at www.otffeo.on.ca

You Asked Us...

Q: Is my pension secure?
A: Yes, your pension is secure. You will receive a lifetime pension when you retire based on a formula that takes into account your years of credit and average earnings.

Q: Why doesn't the cost-of-living change apply to pensioners?
A: The value of pensions being paid to retired members, as well as the value already earned by working members, cannot be reduced under provincial pension legislation. However, in time, the new cost-of-living provision will ensure both working teachers and future pensioners share the risks, rewards and responsibility of funding the pension promise.

Q: Should I retire before the cost-of-living provision is changed?
A: No, retiring earlier will not result in a larger pension. The change affects only cost-of-living increases for pension credit earned after 2009.

For example, let's say you have 20 years of pension credit on Jan. 1, 2010, and you retire five years later. Guaranteed 100 per cent inflation protection will apply to 80 per cent of your pension (20 of 25 years) and 50 to 100 per cent inflation protection will apply to the remainder (five of 25 years).

Q: How can the cost-of-living change help the plan's bottom line?
A: The change will help the pension plan manage challenges stemming from plan maturity (see page 4, *Plan maturity creates funding challenges*).

Because the level of inflation protection will depend on the plan's funding status for pension credit earned after 2009, the plan can afford to take an appropriate amount of risk to earn the investment returns required to pay pensions.

If returns are not as high as expected, or if liabilities grow faster than assumed, the negative experience can be absorbed by varying the level of inflation protection for pension credit earned after Dec. 31, 2009.

Q: Why was the cost-of-living change selected over other possible options?
A: The Ontario Teachers' Federation (OTF) and the Ontario government, in co-operation with pension plan management, conducted extensive research on the assumptions used to value the plan, the safeguards put in place by other Canadian pension plans of a similar size and maturity, and the preferences of working members.

Based on this research, the OTF and the government decided the cost-of-living change was the best way to address the long-term funding challenges caused by plan maturity.

Higher contribution rates would not resolve the long-term challenges. To eliminate the 2008 shortfall with contribution rates alone would have required members to contribute about 16 per cent of their salary to their pension, far more than the 12.3 per cent maximum members have said they are willing to pay.

In addition to its effectiveness in managing plan maturity, conditional inflation protection was the preferred of three benefit changes tested in a member survey in 2007. Members preferred that change over decreasing future pension benefits by 10 per cent and increasing the 85 factor to a 90 factor.

Q: The member survey did not reflect my views. How do I know the results are valid?
A: The member survey was conducted by POLLARA, an independent research firm, to the highest professional standards. Telephone interviews were conducted with 2,820 randomly selected working members, representing a cross-section of the membership. Statistically, the survey results reflect the views of the plan's working members at more than a 98 per cent accuracy level, 19 out of 20 times.

Q: Didn't contribution rate increases take care of the shortfall?
A: Contribution increases in 2007 and 2008, as well as a scheduled increase in 2009, eliminated the $6.1 billion pension shortfall reported in 2005.

However, despite recent strong investment returns, the cost of future pensions continued to grow faster than plan assets, causing another shortfall in 2008. The 2008 shortfall, which has now been eliminated, stemmed from the same conditions that led to the deficit in 2005, including low interest rates, increased life expectancy and projected modest long-term investment returns.

Q: Is another shortfall possible?
A: Yes, if the cost of future pensions grows faster than plan assets, the plan could have a shortfall in the future. The plan's funding status depends on interest rates, inflation rates, market performance and many other factors. While future shortfalls may arise, the cost-of-living change will help keep the pension plan in balance. ■

Teachers' real estate investments recognized for high environmental standards

The next time you go shopping, think about this: the money being invested on your behalf might be helping to build some of the most environmentally friendly retail and commercial buildings in the country.

Cadillac Fairview, the pension plan's wholly owned real estate subsidiary, is recognized as an industry leader in adopting progressive environmental standards for building and managing properties.

NINE PROPERTIES EARN GREEN CERTIFICATION

About 11 per cent of Cadillac Fairview properties have earned the "Go Green Plus" certification from the Building Owners and Managers Association (BOMA). Certification is awarded for meeting best practices in the real estate industry by reducing energy consumption, lowering operating costs and improving waste management. Among the properties to receive this prestigious award are the Toronto Eaton Centre, the TD Centre and Simcoe Place.

Cadillac Fairview's innovation in addressing environmental issues dates back to 2004, when the company became one of the first to convert several office buildings to Enwave's new Deep Lake-Water Cooling system that dramatically reduces energy consumption and emissions. In 2006, construction began on the RBC Centre, which will become one of Canada's greenest office buildings.

LEADING BY EXAMPLE

As one of the largest owners and managers of commercial real estate in North America, Cadillac Fairview strives to be not only the best at what it does, but to set an example for others.

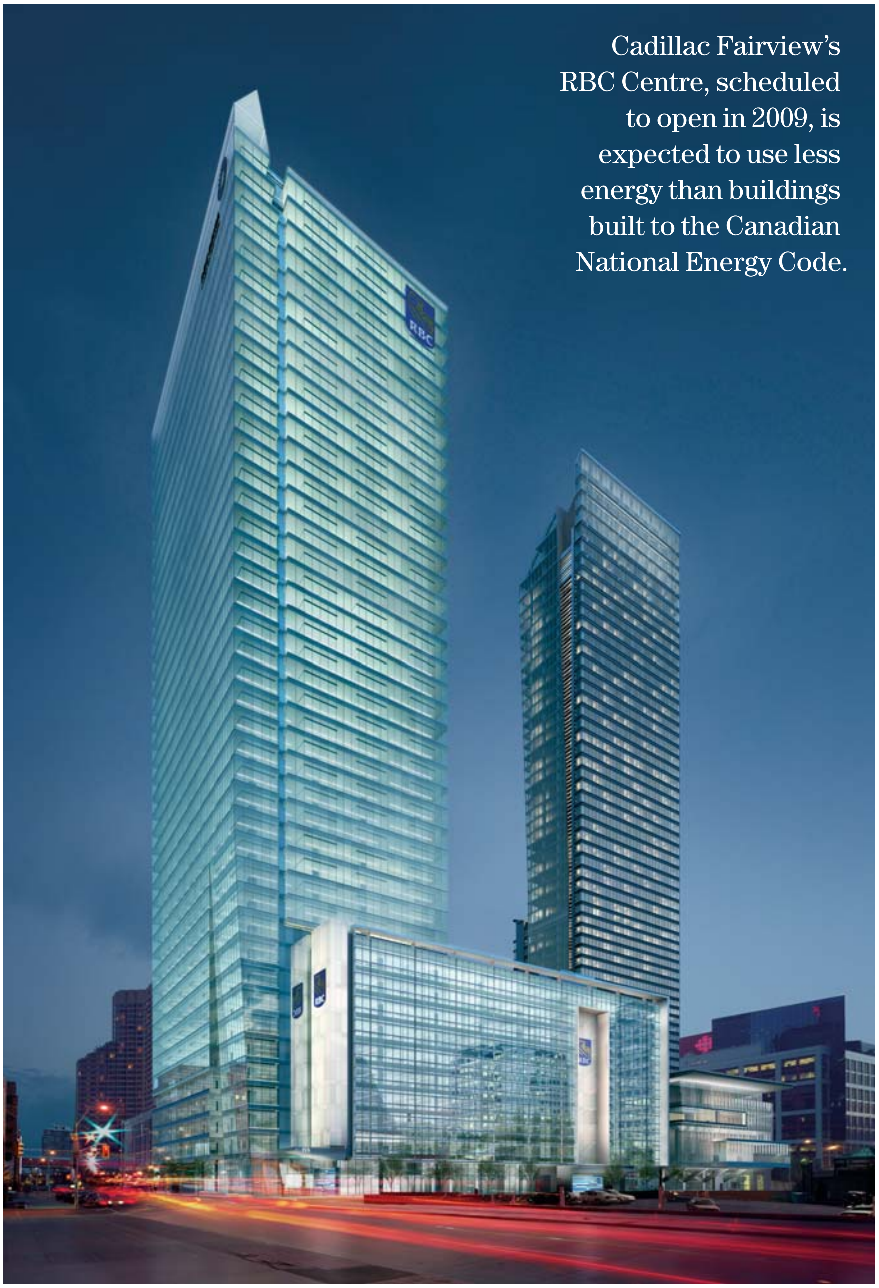
"We want to lead by example in everything we do and this applies to our green initiatives," said Karen Jalon, Director, National Sustainable Operations.


Karen Jalon

Research suggests that retail and office tenants are influenced by their landlord's commitment to sound environmental practices.

"We believe that a focused green program not only supports our corporate best-in-class vision, but also can positively impact our financial performance. It's a win-win for everyone."

Cadillac Fairview has developed a comprehensive green strategy founded on the principles of environmental protection, conservation of resources, technological innovation and social responsibility. "We strongly believe



Cadillac Fairview's RBC Centre, scheduled to open in 2009, is expected to use less energy than buildings built to the Canadian National Energy Code.

this approach is good for business in the long term and will have a positive impact on our employees, tenants and customers," Karen said.

RBC CENTRE ACHIEVES TOP RATING

The RBC Centre has been creating quite a buzz in downtown Toronto since construction began in 2006.

In addition to the striking architecture and optimal location, it will be the first major highrise office building in Canada to achieve the industry's gold standard in green leadership through new technologies and partnerships with tenants to minimize energy use and environmental impacts.

The standard from the Leadership in Energy and Environmental Design (LEED) "Green Building Rating System" is an internationally accepted measurement for environmentally friendly construction.

The 1.2 million sq. ft. property will include features such as:

- automated systems for lighting and windows;
- floor-to-ceiling insulated glass for greater natural light;
- water collection and high-efficiency recycling systems;
- low-emitting materials; and
- biofuel emergency generators providing 100 per cent back-up power to all electrical systems.

The RBC Centre, scheduled to open in June 2009, will rise 43 storeys on Wellington Street, steps from Toronto's Union Station. It will be connected to Simcoe Place and the Ritz-Carlton Hotel, which Cadillac Fairview jointly owns. ■

The Green Vision

Cadillac Fairview's Green program focuses on the following principles and long-term objectives:

- **Energy and water conservation and efficiency:** sustain energy at each property by using renewable energy sources
- **Waste management and recycling:** generate zero waste by implementing a consistent and dedicated approach to waste diversion and minimization
- **Environmental protection:** eliminate adverse impacts at Cadillac Fairview properties wherever activities, products and services interact with the environment (while ensuring compliance with government regulation)
- **Green procurement:** use environmentally friendly products and services at all properties and adopt environmentally friendly best management practices
- **Green communications:** inform, educate and share information with employees and tenants on ongoing initiatives, so everyone can work together to make a difference

Member service ranked first in North America


Pension Benefits Specialist Franki Tso is a member of the award-winning Client Services team.

Your pension plan provides the best-in-class pension service in North America.

CEM Benchmarking Inc. recently ranked the Teachers' plan first among its peers based on an evaluation of 11 service categories, ranging from the payment of pensions to contact with members.

The plan also tied for first place internationally, beating out 58 other leading pension plans in Canada, the U.S., the Netherlands and Australia.

The Teachers' plan scored 89 of a possible 100, compared with a median score of 74 for North American and 60 for Canadian pension plan peers.

Pensionwise™ is published for members of the Ontario Teachers' Pension Plan.

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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Summit needed to fix Canada's pension system

A national summit is needed to reform Canada's retirement system and stop the decline of defined benefit pension plans, said Claude Lamoureux, retired CEO of the Ontario Teachers' Pension Plan.

In a speech to the Economic Club of Canada, Claude said employers are moving away from defined benefit plans because of their high cost and complexity. Only about 20 per cent of private-sector employees are covered by such plans, compared with 80 per cent for the broader public sector. Read the full speech at www.otpp.com.

Update profile for chance to win desktop computer

For the second consecutive year, the pension plan is offering members a chance to win a desktop computer.

If you update your personal profile online by Dec. 31, your name will be entered into a draw in early January for a Dell Pentium 4 Desktop PC with 17" flat-screen monitor.

Members can update their beneficiary designation, address, phone number and other personal information at *i*Access Web, the secure members-only section of our website at www.otpp.com.

If you haven't yet registered for *i*Access Web, consider signing up by:

- Calling 416-226-2700 or 1-800-668-0105; or
- Downloading and completing the registration form at www.otpp.com.

Plan needed to fill gap in retirement savings

A prominent pension expert has called for the creation of a major new supplementary pension plan for Canadians.

In a paper published by the C.D. Howe Institute, Keith Ambachtsheer said such a plan could prevent a decline in the standard of living in retirement for the millions of Canadians with no or inadequate workplace pension plans. ■

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