Teachers' Pension Plan Ontario

Buybacks • Leadership • News briefs

pensionwise™

A Newsletter for Ontario Teachers • **Winter 2010 • Issue 25**

The benefits of buying back

MAXIMIZE YOUR PENSION AND RETIRE EARLIER

PAGE 2

INSIDE THIS ISSUE

The benefits of buying back

Two years ago, Rick's biggest concern was finding the time to complete his graduate thesis in Curriculum Studies and Educational Administration. After taking time off from teaching to obtain his Master's in Education, Rick returned to work with dynamic new ideas for his school's development. But, what will happen to his pension because he took two years off?

BOOST YOUR PENSION AND RETIRE EARLIER

When you take time off from working in education—whether to pursue your dreams of higher education or to take a parental leave—you no longer contribute to the pension plan and you do not receive credit for your absence. Buying back your absence allows you to maximize the value of your pension.

What's more, if the year you buy back is part of your "best-five" average salary used in the formula to calculate your pension, then buying back can both increase your credit and your best-five average. The impact to your pension could be significant.

Buying back has an additional benefit that regular investments and RRSPs do not have: it can allow you to retire earlier with an unreduced pension. And, unlike RRSPs, it provides pre-determined retirement income for life. It is not dependent on investment returns or interest rates and provides valuable survivor benefits.

"It makes good financial sense to buy back your absence," said Michael McAllister, Director, Client Services at Teachers'. "Your contributions are tax deductible and the pension improvement is paid for life."

WHO IS ELIGIBLE?

You may qualify to buy back pregnancy and parental leaves, as well as employer-approved leaves for specific, continuous periods of time or for religious holidays.

A full explanation of the buyback eligibility rules is available online at www.otpp.com. If you have additional inquiries, you can also call one of our Pension Benefits Specialists at 416-226-2700 or toll-free at 1-800-668-0105, Monday to Friday from 8:00 a.m. to 5:30 p.m.

To see how buying back credit can improve your pension, use the Pension Calculator on *i*Access Web, the secure members-only website. In a few easy steps, you can see how a buyback can affect your future monthly income. ■

THE COST OF A BUYBACK is roughly the amount you would have contributed to the plan if you had continued to work, plus applicable interest. Contributions are calculated by multiplying your salary by the contribution rate(s) for the year(s) you are buying back.

Once your leave ends, you have five years to complete your buyback. ■

HOW A BUYBACK CAN IMPROVE YOUR PENSION

Rick

Age:	**45**
Years of credit:	**18**
Planned date of retirement:	**June 30, 2020**
Absence:	**Sept. 1, 2006 to Aug. 31, 2008** (two school years)
Best-five average salary:	**$75,000**

If Rick doesn't buy back his absence

Retires:	**June 30, 2021**
His pension:	**$44,805/yr**

If Rick buys back his absence

Retires:	**June 30, 2020**
His pension:	**$45,000/yr***

BOTTOM LINE: if Rick buys back, he

1. can retire one year earlier
2. collects an additional year of pension
3. increases his pension by $195 a year

... **and had Rick bought back a year that increased his "best-five" average salary, his benefit would have been even greater.**

* the $195 increase in annual pension assumes that Rick works full-time until retirement and that his average salary increases three per cent from 2020 to 2021.

Enhancements will make buybacks easier

Beginning Sept. 1, 2010, several plan enhancements will be enacted to make it easier and more convenient for members to buy back an absence in education.

Over the past few years, Teachers' has worked collaboratively with the plan partners, the Ontario Teachers' Federation and the Ontario government, to identify positive changes that will add flexibility, customization and choice to the buyback experience. These improvements will allow you to save time, take advantage of additional payment options and help you budget your money accordingly.

"At Teachers' we are constantly looking for areas to improve upon our high standard of service," said Rosemarie McClean, Senior Vice-President, Member Services. "Buybacks are one of the key services we offer in the plan. They are important to our members and they are important to us. We recognized some significant enhancement opportunities and we're very excited we can introduce these benefits to our members."

IN THE MIDDLE OF A BUYBACK?

These changes will have little impact on current buybacks. "The enhancements that take effect in September will improve the member experience and provide greater flexibility and convenience for future buybacks," said Michael McAllister, Director, Client Services. "If you are currently making payments towards your buyback, we recommend you continue to do so."

If you have specific questions about your current buyback and the new rules, please call our office. In the meantime, you can find your current buyback estimate and information on *i*Access Web, the secure members-only website.

WHAT'S NEXT

Much like our online pension application, the buyback experience will be found online. Teachers' Client Services team is currently working to create an industry-leading buyback web experience.

"We want this experience to be as convenient, efficient, and as accessible as possible," said Tracy Abel, Director, Business Solutions at Teachers'. "*i*Access Web will play a large role in making these enhancements a reality for our members. This comprehensive resource will be just a click away and will be designed to meet all of our members' buyback needs." ■

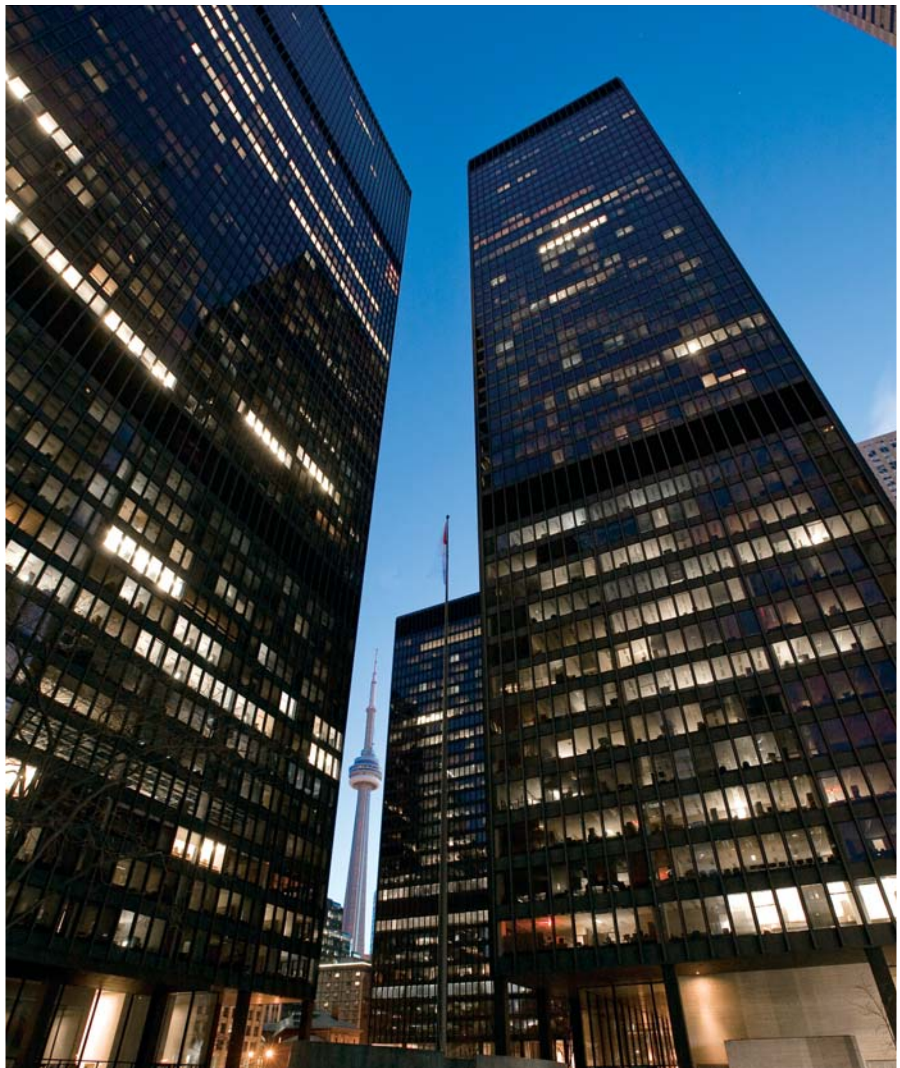
FIVE ENHANCEMENTS HAVE BEEN DESIGNED TO CHANGE YOUR BUYBACK EXPERIENCE FOR THE BETTER, BEGINNING SEPT. 1, 2010. HERE'S HOW:

	1	2	3	4	5
YOUR CONCERN	**If I don't complete my buyback before my leave ends, I have to pay in one lump sum. Don't I have any other options?**	**If I go on leave, my income will be cut significantly. Why charge me interest for this period? I feel like I'm taking a double hit.**	**I find it confusing to get a buyback cost for maternity leaves from my school board and from Teachers' for other types of leaves.**	**Every time my salary changes, the cost of my buyback changes. I can never tell how much I owe at any given point in time.**	**If I'm a part-time teacher, I receive a full year of qualifying credit if I work over 10 days a year. Why can't I receive the same qualifying credit if I buy back that year?**
WHAT HAS CHANGED	**You will no longer be limited to making one LUMP-SUM payment after your leave ends.** Once your leave ends, you have a five-year deadline to pay for your buyback. Instead of paying in one lump sum, you will now have the flexibility to pay what you want, when you want. It couldn't be simpler. (Note: there is an exception–if your employer arranged for you to work outside of Canada, payment must be made during the period of the leave.)	**INTEREST will start to be charged only at the end of your leave.** Any balance remaining on your buyback will not be subject to interest as long as you are still on the leave. Interest will start to accumulate on the unpaid portion of your buyback as soon as your leave ends.	**TEACHERS' will administer pregnancy and parental leaves.** You will receive one cost from one source, as well as clear, concise communications that will show you how your pension will be affected by your buyback. You will be able to use RRSPs to pay for all types of absences. You'll have more payment options than ever before. In addition, Teachers' will be able to provide you with information and counseling based on your own personal situation.	**SALARY and contract percentage at the time of your leave plus an annual increase per school year will be used to calculate cost.** To calculate a buyback for leaves that span multiple school years, we will use your salary at the time of your leave as a base, and apply a standard salary adjustment every school year. The cost of your buyback will be more stable and subject to fewer unknown factors. You will have a more accurate idea of what the cost will be and you can budget your money accordingly.	**PART-TIME CREDIT will be eligible for FULL QUALIFYING credit.** If you are a part-time contractual teacher and want to buy back the year you are absent, you will receive a full year of qualifying credit starting with the 2010/11 school year. Your salary will be annualized and this could potentially boost your future pension. If you buy back only a portion of what you were eligible to purchase, you will receive qualifying credit equal to the actual time you are buying back.

Leading the charge

How Toronto, and Teachers', can be leaders in the pension world

Toronto. Clean. Diverse. Safe. And, a world hub of retirement financing solutions? That image may not spring to mind right now, but if a few forward-thinking financial leaders have their say, it will soon.



"We have a chance to put Toronto, and Teachers', at the centre of excellence for the pension and financial industries."
JIM LEECH, President and CEO, Ontario Teachers' Pension Plan

The Ontario Teachers' Pension Plan has endorsed a report from the Toronto Financial Services Working Group which outlines a strategy to make Toronto one of the two leading financial clusters in North America and one of the top 10 global financial hubs by 2015.

"By supporting the report, we have a chance to put Toronto, and Teachers', at the centre of excellence for the pension and financial industries," said Jim Leech, President and CEO.

FOCUS ON FINANCE

The report acknowledges that the future prosperity of Ontario will be driven by the financial services industry. It presents a strategy to increase Toronto's competitiveness as an international financial centre to create more jobs and to strengthen Toronto's position as a financial services capital.

As a member of the Financial Services Leadership Council, Jim will work with CEOs from across the province's financial services industry to develop and implement the plan. Initiatives include establishing a global institute for risk management, investing in institutions such as the International Centre for Pension Management at the University of Toronto, and marketing and promoting Toronto as a financial services destination.

FINDING THE BEST AND BRIGHTEST

So, why does this matter to Teachers'? One of the risks the organization faces is the need to retain talented staff. Finding and keeping the best and brightest minds in pension management is critical to achieving ongoing success and to fostering innovation in investment and service capabilities. If Toronto is a hub of retirement financing solutions, people

Why Toronto? So many pieces of the puzzle are already here:

- We're home to three of the country's and the world's largest pension funds—Teachers', CPPIB and OMERS.
- The International Centre for Pension Management (ICPM) at Rotman is already recognized as one of the leading-edge institutions in pension management.
- Canada's three largest life insurance companies are based in or have major operations in this city.
- We're a leader in the field of actuarial science, with academic programs at Waterloo, U of T, York and Western.

are more likely to migrate here to work with other experts in the field. Quite simply, talent attracts talent.

"The fact that pension plans were included in this initiative is significant," said Jim. "It highlights the fact that everyone from governments to the man on the street has recognized that retirement systems face major challenges that must be addressed, in Canada and around the world."

The overarching goal is financial retirement stability for all. As a core of expertise develops in Toronto, Teachers' can play an important role in the discussions around retirement income strategies, policies and solutions. Therefore, an obvious benefit to members emerges as the organization becomes increasingly well-positioned to continue being an industry leader and to strengthen its service offering.

A copy of the full Toronto Financial Services Working Group report called *Partnership and Action: Mobilizing Toronto's Financial Sector for Global Advantage* is available in the Newsroom section at www.otpp.com. ■

Your pension, explained...

YOU MAY HAVE READ THAT THE ONTARIO TEACHERS' Federation (OTF) and the Ontario government, the plan's co-sponsors, filed a funding valuation with the provincial pension regulator in the fall of 2009. A funding valuation is an assessment of the long-term financial health of a pension plan. This valuation showed the pension plan had enough assets to cover the cost of future pension benefits as of Jan. 1, 2009.

But funding shortfalls have been problematic in the past, and they are projected to return in the future. That's because plan liabilities (the cost of future pensions) continue to grow faster than plan assets.

To address this, the OTF and government, in co-operation with the Teachers' pension plan, have set up a working group. The group will develop a strategy to deal with the pension plan's recurring funding challenges. No changes to plan benefits or contributions will occur before the next valuation is filed, which must be done by Sept. 30, 2012.

Along the way, we have made a commitment to keep members up-to-date on the working group's progress. We also want to provide members with a sound understanding of core funding concepts. To help explain these concepts, we begin a new series of informative articles entitled ***Your pension, explained...***

··· THIS ISSUE ···

How interest rates affect the cost of your pension

REAL INTEREST RATES for long-term bonds play a major role in the funding status of the pension plan. That's because real interest rates are used to estimate the cost of future pensions. The "real" interest rate is the interest rate minus inflation.

REAL INTEREST RATE CALCULATION	
3.0%	Interest rate
-2.0%	Inflation rate
1.0% =	**"Real" interest rate**

If real interest rates remain low, the cost of future pensions will remain high. If real interest rates increase, the cost of future pensions will decrease.

Imagine you are saving for a down payment for a house or car by a specific date. If your savings earn less each year because interest rates are low, you will have to put aside more money to reach your goal on time. It's the same with pensions. When real interest rates drop, the plan needs to set aside more money to reach its goal.

For example, securing a typical $40,000 pension requires about $745,000 when real interest rates are at three per cent. If real interest rates drop to one per cent, about $995,000 is needed.

Have a look at the graphic. It demonstrates why real interest rates have a huge impact on pension costs.

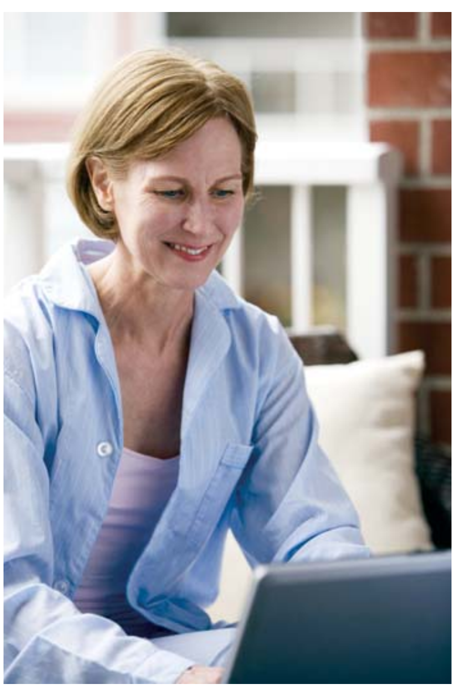
INTEREST RATE	MONEY REQUIRED FOR A TYPICAL $40,000 PENSION, RETIREMENT AT AGE 58
5.0%	**$585,000**
4.0%	**$660,000**
3.0%	**$745,000**
2.0%	**$855,000**
1.0%	**$995,000**

Six steps to online retirement

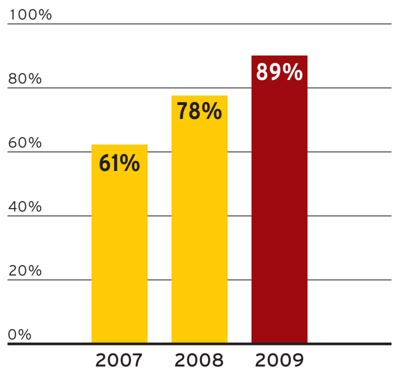
Over 4,050 teachers, or 90 per cent of retiring members, are expected to apply for their pension online by the end of 2010.

In 2007, 61 per cent of members retired online. In 2009, that number jumped to 89 per cent—an increase of 46 per cent in two years. "The increase we've seen in online pension applications has been remarkable," said Michael McAllister, Director, Client Services at Teachers'. "We are well aware that our members are incredibly web-savvy. We strive to recognize this in a simple, easy-to-understand retirement process that is paperless, quick and efficient."

The benefits of the *i*Access Web retirement centre have not gone unnoticed by members, who value the service's speed and convenience. "When I started to think about my retirement, I used *i*Access to try out retirement scenarios and access valuable information. So when I sat down to apply online, I



INCREASE IN ONLINE PENSION APPLICATIONS



was well-prepared. And applying for my pension was simple, fast and straightforward," said Mary-Lynn Woolcott of Nepean, who retired in 2009.

HOW TO APPLY

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

1. Tell us when you want to begin your pension.
2. Verify your contact and personal information, and survivor benefits.
3. Answer a few benefit-related questions.
4. Tell us where to deposit your monthly pension.
5. Review your application and submit it online.
6. Print your online application for your records.

Once you've applied, you'll need to supply us with a few hard-copy documents (all may not be applicable or we may already have some of your documents on file):

- a photocopy of your birth certificate
- a document supporting your deposit instructions (for example, a void cheque, the U.S. Direct Deposit Request form or the Foreign Wire Application form)
- a photocopy of your spouse's birth certificate
- a photocopy of your marriage certificate
- a letter from your religious order confirming your vow of poverty
- a photocopy of your Native Indian Status card. ■

How to register for *i*Access Web:

1. Call **416-226-2700** or **1-800-668-0105**, weekdays from 8 a.m. to 5:30 p.m. or
2. Download and complete a registration form found on our website at **www.otpp.com**. Just follow the link from the homepage.

You can apply for your pension up to four months before your pension start date. For example, if you are planning on retiring at the end of June, you can apply beginning March 1, 2010.

You Asked Us...

Q. I heard about the recent buyback enhancements. I am currently making payments for a buyback. Do I need to do anything?
A. You can continue to make your payments as you have been doing. You will naturally transition into the new buyback experience after Sept. 1. In some cases, this might mean a more flexible payment arrangement. But rest assured, no administrative changes are required. Just continue with what you have been doing.

Q. I was going to take a month off this spring. Should I delay my leave until after Sept. 1 when these enhancements take effect?
A. No, nothing in these changes should affect your decision to take a leave of absence. Should you decide to buy back this absence, just contact us for a cost estimate and we'll provide you with your payment options and tax implications.

Q. I'm expecting a baby in November. What do I need to do for my pregnancy leave?
A. Since your leave will take place after Sept. 1, you simply need to let your employer know that you are going to be taking a pregnancy leave. We'll take care of the rest. Once we receive this information from your employer, we will contact you regarding buying back your pregnancy leave.

Q. I'd like to buy back credit for a recent employer-approved leave but I don't have extra cash right now. Am I out of luck?
A. No. If you apply to buy back this absence through us, you can transfer funds from your RRSP to help pay all or a portion of your total cost. Effective Sept. 1, members will also be able to transfer RRSP funds to help pay for pregnancy or parental leaves.

Q. Who decided to change the buyback rules?
A. The plan's sponsors, the Ontario Teachers' Federation (OTF) and the Ontario government, are responsible for legislative changes to plan benefits. We worked collaboratively with both partners to identify the enhancements that we've outlined in this newsletter.

Q. What if I'd rather pay down my mortgage instead of buying back?
A. You need to make the decision based on your own financial situation. Buying back your service is not mandatory, it's just one of many financial options you have available to you. We cannot make the decision for you; however, we can counsel you as to how buying back could improve your pension and your future financial goals. We recommend that you speak to a financial advisor and a Pension Benefits Specialist to help you make your decision.

Q. Are there any tax implications for buybacks I need to be aware of?
A. Yes. Your Teachers' credit is linked to your RRSP contribution room. Essentially, the greater your pension benefit, the less room you will have available to contribute to an RRSP.

When you buy back your absence, you will receive a pension adjustment (or PA), just as you would have received had you worked during your absence. A PA will offset the amount of RRSP room created each year. Note that if you pay after April 30 of the calendar year following the year your absence ended, you will receive a past service pension adjustment (or PSPA). Your buyback will be subject to approval from the Canada Revenue Agency, based on your RRSP room.

The rules concerning PAs, PSPAs and tax deductibility can be complex. More detailed information can be found under Tax Implications in the Buybacks section at www.otpp.com. You can also contact one of our Pension Benefits Specialists for more information on your benefit options. ■

Teachers' to acquire Canadian mortgage insurance company

The Ontario Teachers' Pension Plan, in partnership with a private Canadian investor group, has agreed to acquire United Guaranty Canada, the Canadian mortgage insurance subsidiary of American International Group, Inc. (AIG). The price for the deal, expected to be completed by spring, was not disclosed.

United Guaranty Canada, headquartered in Toronto, is the second largest private insurance provider in the country with assets of $274 million as of Sept. 30, 2009.

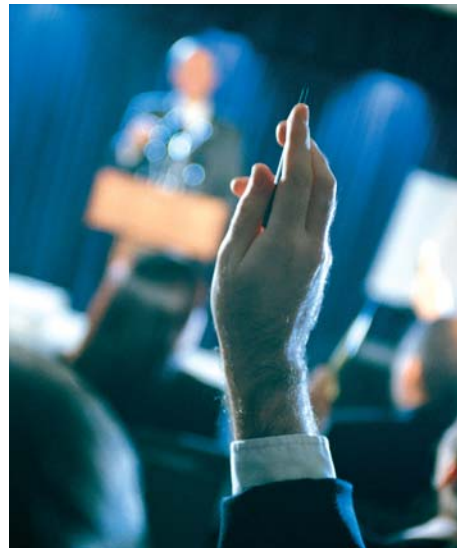
Erol Uzumeri, Senior Vice-President, Teachers' Private Capital, said the Canadian financial and housing industry is widely recognized as one of the most stable in the world, and Canadian mortgage insurance is a niche market and growing industry.

"After studying the Canadian mortgage sector for more than two years, Teachers' realized this investment had strong potential for future returns," he said.

"We believe the mortgage insurance industry in Canada to be an attractive market, and that United Guaranty Canada is well positioned to grow its market position. The company has a strong management team, and Teachers' is prepared to support the growth of the business."

Attend annual meeting on April 9

Interested in more details on the plan's 2009 investment and service performance? You can attend the pension plan's annual meeting from 5 to 7 p.m., April 9, at The Carlu,



444 Yonge St., in downtown Toronto. The presentations will be followed by a question and answer period and an opportunity to ask a Pension Benefits Specialist about your pension.

To RSVP your attendance or to submit a question for the meeting, e-mail communications@otpp.com by April 6. The most frequently asked questions will be addressed at the meeting and answered on our website.

You can also watch the proceedings live, or later at your convenience, at www.otpp.com. ■

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

We appreciate your comments about anything you read in *Pensionwise*. Please e-mail member_communications@otpp.com

Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, Ontario M2M 4H5

Client Services
Telephone: 416-226-2700 or 1-800-668-0105
Fax: 416-730-7807 or 1-800-949-8208
E-mail: inquiry@otpp.com
Website: www.otpp.com

ONTARIO TEACHERS'™ PENSION PLAN

Printed on recycled stock
ISSN 1706-0214

Return undeliverable Canadian addresses to:

PM# 40062973

Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, Ontario
M2M 4H5