TEACHERS' PENSION PLAN ONTARIO

PENSION WISE

A NEWSLETTER FOR ONTARIO TEACHERS

FALL 2011

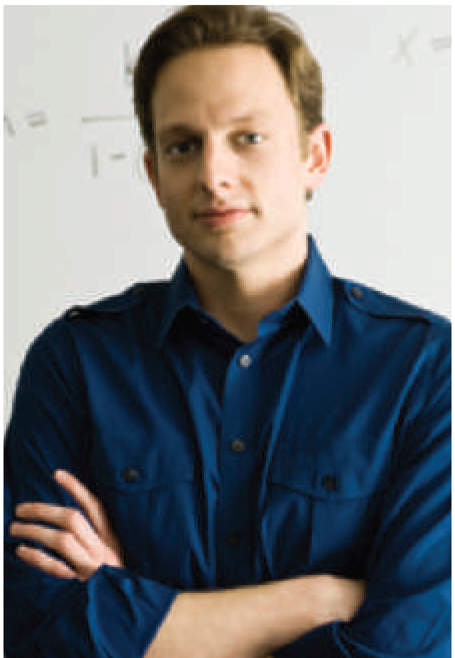
2011 SHORTFALL ADDRESSED: What does it mean for you?

PAGE 2

INSIDE THIS ISSUE

2011 SHORTFALL ADDRESSED

What does it mean for you?



Contribution rates to increase, conditional inflation protection invoked

The Ontario Teachers' Federation (OTF) and the Ontario government, the pension plan's sponsors, have addressed Teachers' 2011 funding shortfall with a plan that includes two key changes:

1. **Slightly smaller annual cost-of-living increases for teachers who retired after 2009; and**
2. **A contribution rate increase, phased in over the next three years**

Let's look at both of these changes and see how they will affect you.

1. Conditional inflation protection to be invoked

Beginning next year, teachers who retired after 2009 will receive 60% of the annual cost-of-living increase for the portion of their pension earned after 2009. They will continue to receive 100% of the cost-of-living increase for the portion of their pension earned before 2010.

The change means affected pensioners will receive monthly inflation increases for the next few years that are a few dollars less than they would be with full inflation coverage.

The 60% level of inflation protection will be in effect until the next filing of the pension plan's funding valuation. The next filing is required by October 2014.

When the filing occurs, inflation increases for pensions earned after 2009 will be set at a new level between 50% to 100% of the change in the cost of living, depending on the plan's funding status.

The Ontario government and other employers will make extra contributions to the pension plan equal to the total annual cost of inflation increases that retirees and terminating members forgo. For example, if retirees forgo $1 million in inflation increases, the government and other employers will contribute an extra $1 million to the pension plan. These contributions would be in addition to their regular matching contributions.

What does this mean for you?

Invoking 60% inflation protection has no immediate effect on working teachers. Inflation adjustments are calculated only after a member retires and depend on the plan's funding health at the time.

When you retire, the level of inflation protection for credit earned after 2009 will be set at least every three years at 50% to 100% of the change in the cost of living. Inflation adjustments for pension credit earned before 2010 will continue to be set at 100%.

2. Contribution increases totalling 1.1% of earnings

You will contribute an additional 1.1% of your salary to the Teachers' pension plan to help cover the 2011 funding shortfall. The increase will be phased in over three years: 0.4% more in 2012, and 0.35% in each of 2013 and 2014. All increases go into effect with your first pay in January.

The Ontario government and other employers will continue to match total annual member contributions at the new higher rates.

What are the new contribution rates?

A two-tiered formula is used to calculate contributions to the Teachers' pension plan. Contributions are lower on salary up to the Canada Pension Plan (CPP) contributions and benefits limit, and higher on any salary above the CPP limit.

Contribution rates (as a % of your salary)

Year	Up to CPP limit*	Above CPP limit*	Increase**
2011	10.4%	12.0%	n/a
2012	10.8%	12.4%	0.4%
2013	11.15%	12.75%	0.35%
2014	11.5%	13.1%	0.35%
		Total increase:	**1.1%**

* The CPP limit is the maximum earnings on which CPP contributions and benefits are based. The limit, which changes annually, is $48,300 in 2011.

** As a percentage of salary

What does this mean for me?

For an average teacher earning $80,000, the 0.4% increase means an extra $320 in contributions in 2012. This will be partially offset by lower taxes because pension contributions are tax deductible. *Take a look at the chart below to see how this will affect teachers at different salary levels.*

How much will I contribute?

Annual salary	Annual contributions*			
	2011	2012	2013	2014
$30,000	$3,120	$3,240	$3,345	$3,450
$40,000	$4,160	$4,320	$4,460	$4,600
$50,000	$5,227	$5,427	$5,602	$5,777
$60,000	$6,427	$6,667	$6,877	$7,087
$70,000	$7,627	$7,907	$8,152	$8,397
$80,000	$8,827	$9,147	$9,427	$9,707
$90,000	$10,027	$10,387	$10,702	$11,017
$100,000	$11,227	$11,627	$11,977	$12,327

* All numbers are approximate and assume a fixed CPP limit of $48,300. In reality, the CPP limit increases a little every year.

Two other changes used to resolve the 2011 shortfall include:

1. The current contribution rate (10.4% of a member's annual salary up to the CPP limit and 12.0% of any salary above the CPP limit) is to be recognized as the permanent base contribution rate; and

2. The pension plan board changed a key assumption used to value projected pension assets, which reduced the size of the 2011 shortfall. The assumption change was made possible because of the reduction in funding risk reflected in the 2011 filed funding valuation.

For more information, visit www.FundingYourPension.com or the Plan Funding section of www.otpp.com.

YOU **ASKED** US...

Q. Did the OTF and the government consider other options to address the 2011 shortfall?

A. The plan sponsors considered several solutions before agreeing on the changes announced. To address any funding shortfall, the OTF and the Ontario government can:

- increase contribution rates;
- invoke conditional inflation protection for pension credit earned after 2009;
- reduce pension benefits members will earn in future years; or
- adopt a combination of these options.

Q. Why was the 2011 shortfall addressed now?

A. The OTF and the government decided to address the shortfall in 2011, a year earlier than required by law. They concluded it would be beneficial to members to do this because the pension plan's funding status is projected to deteriorate in 2012 due to low interest rates and the recognition of deferred losses from 2008.

Addressing the shortfall early avoids potentially more dramatic changes that likely would be necessary if decisions were made next year instead of this year.

Q. Are funding problems behind us now?

A. No, we have a systemic funding problem. The OTF and the government resolved the 2011 funding shortfall, but the cost of future pensions continues to grow faster than plan assets. We expect to report another preliminary shortfall next year.

Q. How can we be projecting another shortfall when we just resolved one?

A. Historically low real (after inflation) interest rates and member demographics are two key factors. As well, the plan will continue to absorb the impact of its 2008 investment loss until 2012.

Q. How are demographics a factor?

A. Member demographics have changed dramatically during the past 20 years. A typical teacher now collects a pension for 30 years, about four years longer than a typical teaching career. Pension plans were never intended to support members in retirement for longer than they worked. Another demographic challenge is a low ratio of working to retired teachers. The pension plan now pays pensioners close to $2 billion more each year than it collects in contributions from teachers and the government.

Q. Why are low interest rates contributing to funding problems?

A. The pension plan's funding health is highly sensitive to interest rates. When long-term real (after inflation) interest rates drop, pension costs rise because more money must be set aside now to pay pensions in the future. Long-term real rates are at historically low levels with no relief in sight.

For example, the U.S. Federal Reserve Bank plans to keep interest rates, a key economic indicator, at near zero for at least the next two years. Closer to home, rates dropped again this year from a low of 1.1% at the end of 2010. Because we now average interest rates over three years in the funding valuation, the impact of low rates will be continue to be felt for at least a few years.

Q. How will you fix the plan's long-term funding challenges?

A. It's up to the OTF and the government to decide that. They sponsor the Teachers' plan and set contribution and benefit levels. We support them in their commitment to keep the pension plan affordable and viable well into the future.

Q. What happens to my pension if we report another shortfall next year?

A. A shortfall that shows up in a funding valuation does not need to be addressed unless the valuation is filed with the provincial pension regulator. The regulator requires a valuation every three years. The next valuation is due in 2014, but the OTF and the government could file before then.

Q. Can you explain what it means to "recognize the current contribution rate as the permanent base rate"?

A. The base contribution rate is the contribution level required to fund pension benefits when the plan is in balance (when there is no shortfall or surplus). Current contributions are actually comprised of a base percentage and an additional, special percentage. This change simply means we are blending the two rates to come up with a new base rate for the funding valuation.

Q. How is market turmoil affecting the plan's funding status?

A. It's difficult to predict year-end results in this volatile market. Keep in mind that we're long-term investors, our liquidity is excellent and market slumps provide good opportunities to buy well-priced assets. For more information on market volatility and plan funding, listen to a message from Teachers' CEO Jim Leech or read a speech delivered by Chair Eileen Mercier. Both are available on our website at **www.otpp.com**.

Teachers' best in class for 2010

Teachers' once again has reason to celebrate.

Our Member Services division was ranked first for pension service in our peer group of North American plans by CEM Benchmarking Inc. This is the second time we've placed first in our peer group.

CEM Benchmarking Inc. is an independent research firm that annually measures the performance of 47 leading pension plans in Canada, the United States, the Netherlands and Australia. It evaluates 14 service categories, including member statements, contact centre, website, pension estimates and mass communications. Teachers' received a service score of 86 out of a possible 100, compared with a median score of 78 for our pension plan peers.

Our total service score has remained consistently high since 2002, and we're the most cited peer in CEM's annual global best practice research. Our peers look to us to lead the way in online capability, communication strategy, satisfaction surveying and other service offerings.

"Our first-place finish reflects our team's commitment to delivering superior service to our members," said Rosemarie McClean, Senior Vice-President, Member Services. "It's recognition of the hard work that's been done on challenging projects and it's great motivation to keep moving forward."

"We are constantly looking for ways to improve upon the outstanding personalized service we provide to our members, and the CEM results reflect that," said Rosemarie.

BREAKING UP?

New legislation to change how pensions are divided

The *Family Law Statute Amendment Act* is designed to streamline the pension division process and help ease the financial burden for couples facing the end of their relationship. The new *Act* includes numerous amendments to the *Pension Benefits Act* and the *Family Law Act* and becomes effective January 1, 2012.

Does the *Family Law Statute Amendment Act* apply to you?

If you're signing your separation agreement on or after January 1, 2012, you and your spouse will fall under the new rules.

If you're unsure of whether you should complete your separation agreement before or after January 1, 2012, consult your family lawyer. Each person's situation is different and unique, and your family lawyer can provide customized legal advice as it relates to your separation and the impact it might have on your pension.

Your pension is one of your greatest assets. When a spousal breakdown occurs, the division of this valuable asset is neither mandatory nor automatic. If you choose to divide your pension to settle an equalization payment, here's how the new rules may apply to you.

The two major changes taking effect in 2012 are:

1. **Teachers' to provide pension valuation**

   You no longer have to hire an external actuary to do this. Teachers' will prepare a statement of Family Law value for you, saving you time and money.

2. **Lump-sum payout for ex-spouse**

   If you're separating *before* receiving your first pension payment, you now have the option to assign a lump sum payout to your ex-spouse instead of having to wait for your first pension payment.

Settlement options?

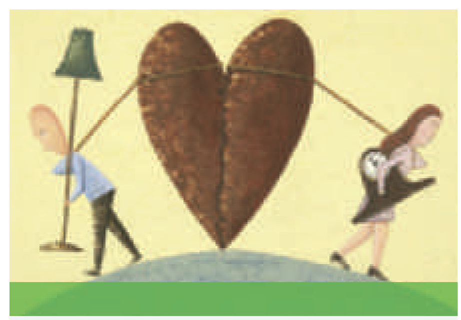
When the new rules become effective, the most significant change for you and your spouse occurs if you separate *before* receiving your first pension payment. In this situation, you can transfer a lump sum payment from your pension to equalize assets.

If you've already received your first pension payment, the division of pension is the only settlement option available to you and your spouse (similar to current rules).

Keep us, and yourself, informed

We'll be providing additional information on the *Family Law Statute Amendment Act* as we transition to the new rules and beyond. Keep checking www.otpp.com for updates.

And don't forget to contact us if your marital status changes. Let us know on *i*Access Web, our secure member website. If you're not registered, call us.



What is a separation agreement?

An agreement by two people, who cohabited and have separated, on their respective rights and obligations.

What is an equalization payment?

In family law cases, a payment from one married spouse to the other to ensure that both parties receive an equal share of the net family property they accumulated during their marriage.

* from the Ministry of the Attorney General

NEWS BRIEFS

Responsible Investing: Teachers' signs UN Principles, launches documentary

Teachers' has signed the UN-backed Principles for Responsible Investing, joining hundreds of large investors around the world. The principles reflect the view that environmental, social and corporate governance issues–or "ESG" issues–need to be considered when making investment decisions because they can affect investment returns.

The pension fund's investing practices were already aligned with many of the principles. Teachers' already considers ESG issues if they affect the value of a company or investment. Joining the PRI brings access to new resources that will enhance the expertise of the fund's investment professionals as they analyze the financial implications of ESG risks and opportunities.

You can learn more about the principles at www.otpp.com or www.unpri.org.

On a related note, Teachers' has co-produced a 20-minute documentary that captures insights and perspectives from experts across the investment spectrum on the topic of responsible investing. The documentary is available to members and the public at www.otpp.com.

Five senior members of Teachers' investment team took part in roundtable discussions about key responsible investing questions. This video is also available for viewing on our website.

You can learn more about the principles at www.otpp.com or www.unpri.org.

Teacher wins demographic contest

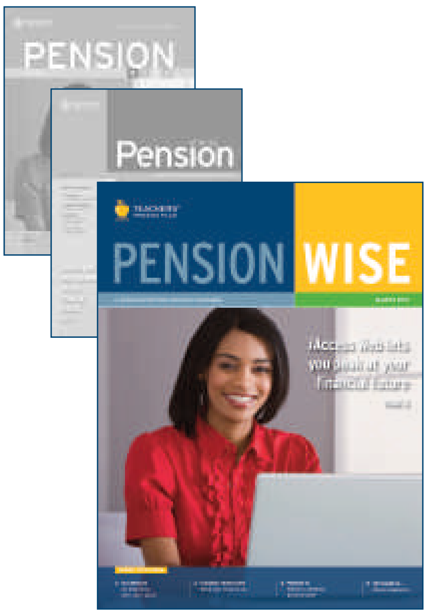
Congratulations to Mr. A. Radica of Bolton who won a $100 Cadillac Fairview shop! gift card. Mr. Radica went online to *i*Access Web and made a change to his demographic information. If you make a change to your *i*Access Web demographic profile by December 31, 2011, you will be entered into our final draw of 2011.

One entry per person. Random draw. Winner will be notified by telephone.

New investments announced

It was a busy summer for Teachers' investment division. We swapped ownership of premier airports with MAp Airports, receiving an interest in airports in Brussels and Copenhagen in exchange for cash and Teachers' interest in the airport in Sydney. We acquired a major parking management company, which owns Imperial Parking Corp. (Impark), and we obtained a majority stake in Flexera Software, a market leader in software licensing management solutions. Teachers' also announced its successful bids in government-held auctions to increase its stake in two Chilean water utilities–Essbio S.A. and Esval S.A.

YOU VOTED FOR A NEW *PENSIONWISE*



You voted and the final results are in.

Back in the spring, we presented three new designs for *Pensionwise* and asked you to vote for your favourite. We're proud to present to you the winning design with the publication of this edition.

Why change?

Teachers' produces three different newsletters: *Pensionwise* for active teachers, *Pension News* for retired members, and *Pension Update* for employers and school boards. Historically, we used a separate production process for each newsletter. We decided that to improve efficiency, we had to evaluate these processes and ultimately make some changes. By reconciling the different designs into one identity, we save both time and money.

Green choices

Our members' feedback indicated that they are environmentally conscious, so we decided to print our newsletter on FSC paper through an FSC-approved printer. FSC stands for the Forest Stewardship Council, an international certification system dedicated to promoting responsible management of the world's forests. Our FSC-approved printer meets strict environmental and social standards and is authorized to sell FSC-certified paper.

The cost to print on FSC-certified paper is exactly the same as printing on non-FSC paper, so switching paper stock is a simple and cost-effective way we can improve on the services we provide to members.

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

FSC
MIX
Paper
FSC® C021249

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