Ontario Teachers' Pension Plan (OTPP)

Issue: What is the current financial status of the OTPP?

Key Messages:

- According to a preliminary funding valuation (as of January 1, 2017), the Ontario Teachers' Pension Plan had a surplus of $11.5 billion. This surplus means that the Plan had 105% of the assets required to meet its long-term pension obligations.
- This is the fourth consecutive year the plan has experienced a surplus.
- The surplus is primarily due to:
    - A 4.2% return on plan investments in 2016;
    - Investment gains from prior years (also known as a smoothing adjustment),
    - Positive steps by the sponsors in recent years to de-risk the plan and add flexibility to benefits including the decision to set inflation protection at reduced levels for pension credit earned after 2009.
- Effective January 2018, the Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the OTPP, have decided to use some of the $11.5 billion surplus to restore inflation increases and decrease contribution rates.
    - Some surplus funds will also be reserved to help facilitate stability in contribution rate and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
- More specifically, filing the 2017 valuation will fully restore Conditional Inflation Protection (CIP) for retired members from 90% to 100% for the portion of pensions earned after 2009.
    - This is the fourth consecutive year OTF and the government have allocated surplus funds to restore inflation protection levels that had previously been reduced.
- Also, members who are still working will see their contribution rate decrease by 1.1%, effective January 1, 2018.

- The OTPP and OTF have publically released the valuation results to all members on June 12, 2017 and updated all related content on the OTPP website.

Key Facts:

- A valuation is performed annually and results are generally made public in April.
- The OTPP investment portfolio earned a 4.2% return in 2016, which exceeded its benchmark of 3.5%.
    - Net assets rose to a record $175.6 billion in 2016, up from $171.4 billion in 2015.
- The OTPP is a defined benefit pension plan. Members receive 2% of their best five-year average salary for every year of service. Members are eligible for an unreduced pension when they reach 85 factor (age + qualifying service).
- Contributions into the OTPP are based on a percentage of a member's annual salary. The government has a statutory obligation to match these contributions.
    - The average contribution rate is currently 12.3%. With the 1.1% reduction in contributions, the average rate will be 11.2% effective 2018.
- In recent years, in order to ensure the long-term sustainability of the plan, the sponsors introduced CIP which reduced the amount of inflation protection received by pensioners for post-2009 service.
    - Pensioners will now receive 100% of inflation for pension credit earned after 2009 effective January 2018 (up from 90% in 2017).
    - Pension credit earned before 2010 remains fully indexed to inflation.
- The *Pension Benefits Act* (PBA) requires a valuation to be filed with FSCO at least once every 3 years. The OTPP last filed a valuation with the FSCO as of January 1, 2016.

Publicly Available Resources:

- The following website provides information on the OTPP: *http://www.otpp.com*
- Information regarding the pension plan is available for the general public, and the website includes a login section for members and pensioners.

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