Fw: Additional Documentation

From: "Veinot, Cindy (TBS)" <"/o=govon/ou=exchange administrative group (fydibohf23spdlt)/cn=recipients/cn=veinot, cindy (tbs)d57">
To: "Killoch, Alex (MOF)" <alex.killoch@ontario.ca>, "Paul, Joshua (EDU)" <joshua.paul@ontario.ca>
Date: Sun, 18 Sep 2016 21:09:10 -0400
Attachments: 2016 Valuation - Minister Approval DN 2016-08-04.pdf (1.2 MB); Key Funding Decisions.pdf (496.52 kB)

Keeping you in the loop re info I sent to Matt. Cindy

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Sunday, September 18, 2016 16:43
To: Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Cc: Petsche, Nadine (TBS)
Subject: RE: Additional Documentation

You have a message from Nadine that has the two requested documents. Re: conditional indexation, I've asked if there is a summary of how this works, but in the meantime here is some information:

A. Link and content from the OTPP website re: conditional inflation. The summary speaks to when conditional inflation was introduced and how it has changed. As noted, the concept was introduced in 2008, but used for the first time in 2010. I've highlighted #7 at the bottom which is important as when the decision was made to move from 100% inflation protection to something less than that, there was an impact to the employers (e.g. government) such that the agreement was if the teachers were going to get a reduced pension, then employers (e.g. government) would make additional contributions to the plan equal to the reduction in the pension amount paid to the teachers – hence the name "share the pain." The province has had to make additional cash payments to the plan in the recent years. The cash payments to the plan are made as the teachers receive a reduced pension.

https://www.otpp.com/members/cms/en/news/archive/2011/seven-things-you-should-know-about-conditional-inflation-protect.html

Seven things you should know about conditional inflation protection

December 21, 2011

Although conditional inflation protection was introduced in 2008, this will be the first year that some pensioners will see its effects. Here's a recap of some of the key points you should know.

1. Your Teachers' pension includes annual cost-of-living increases to help you maintain your

purchasing power in retirement.

2. Conditional inflation protection means that:

    a. The portion of your pension credit earned until the end of 2009 is 100% protected against increases in the cost of living, as measured by the Consumer Price Index (CPI).

    b. The level of inflation protection provided for the portion of your pension credit earned after 2009 will depend on the funded status of the plan. Annual cost-of-living increases for pension credit earned after 2009 will be between 50% and 100% of the change in Consumer Price Index, depending on the plan's funding position.

3. The Ontario Teachers' Federation (OTF) and Ontario government , which jointly sponsor the pension plan, introduced the concept of conditional inflation protection in response to the 2008 funding shortfall.

4. Last year, the plan sponsors invoked conditional inflation protection at 60% to address the 2011 funding shortfall.

5. The 60% conditional inflation level will remain in effect until a new level is set, or the existing level confirmed, when the next funding valuation is filed with the provincial pension regulator. This must happen no later than 2014.

6. Conditional inflation protection only affects you when you retire. If you are a working teacher, you do not accumulate a specific percentage of conditional inflation protection on your pension credit. The act of invoking 60% conditional inflation protection for three years has no effect on the future cost-of-living increases that working teachers will receive.

7. **The Ontario government and other employers that participate in the Teachers' pension plan will make extra contributions to the pension plan equal to the total cost of annual inflation increases that retirees forgo.**

B. The restoration of the indexation has been implemented in steps – most recently the announcement was made on September 14, 2016 to move the inflation indexation from 70% to 90%. The impact of that on the funding surplus is articulated in the Briefing Note to the

Minister of Education – I've attached it so you don't have to look at it. Essentially the impact of that surplus costed at $8.6 B -- $4.3 B is the PV of the additional payments that will be made to the teachers as a result of moving from 70% to 90% and $4.3 billion is the PV of the contributions that the employer will not have to make. The split is in the email I forwarded yesterday at 10:32 am from the Ministry of Education. That email also speaks to the split in the prior year when the level of protection was moved from 60% to 70%. The funding history document (also attached) summarizes the changes in funding inflation protection since 2014.

C. The funding valuation takes into account the anticipated additional payments from the employers – Martin Raymond compared the funding valuation to the Province's valuation to show how the conditional indexation is taken into account – if you haven't seen that reconciliation it may be useful to have him/Trevor walk you through it.

D. The province records the obligation assuming 100% indexation. Either the amounts paid to the pensioners will be at 100% or the amounts will be less than 100%, but the amounts the province has to pay to the plan makes up the difference between the level of indexation protection paid to the pensioners and 100%. (Note that the agreement relates to payments when inflation protection is between 50% and 100%).

Let me know if you have further questions.

Cindy

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September-18-16 2:48 PM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: Additional Documentation

Hi Nadine,

After our call with the lawyers there are a couple of items that we were wondering if we could see:

The announcement that was made this week on the indexation of inflation to 90% is a tough concept to understand in how this reduces future funding requirements (I think the share the pain payment was specifically mentioned). Could someone on your team do a write up on what this means? Additionally, I believe that this indexation was increased in the past – would the write up be able to talk how future contributions were reduced in those instances as well.

Osler's has made reference to a 2012 term sheet. Could you get us a copy of this?

There was a memo from Lise Houlse (at Mercer's) to Mary Cover (Ontario Teachers' Pension Plan) dated June 17, 2016. Could we obtain this as well?

Kind regards,

Matt

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