

RE: Share the Pain

From: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Cc: "Paul, Joshua (EDU)" <joshua.paul@ontario.ca>, "Killoch, Alex (MOF)" <alex.killoch@ontario.ca>, "Pomykacz, Rob (MOF)" <robert.pomykacz@ontario.ca>
Date: Wed, 21 Sep 2016 19:42:37 -0400

Cindy,
Alex and Rob walked through higher level summary docs they receive from OTPP. Not sure that they have the details. We likely should get them, even if we don't share them with the AG as under her approach these would be revenues for next year which she'll have to audit for 16/17. n

From: Veinot, Cindy (TBS)
Sent: September 21, 2016 7:41 PM
To: Paul, Joshua (EDU); Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

I would have thought that EDU would have the information in order to make the decision to agree to the change in the conditional indexation. What is the quantitative evidence on which those decisions are made?

Thanks,

From: Paul, Joshua (EDU)
Sent: September-21-16 7:31 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Folks can correct me if i'm wrong, but that stuff can only come from the Plan (we don't have it as far as I know) and pointing to where one finds the right numbers to answer the Q may take an actuary - either ours or the OTPP's presumably.

Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)
Sent: Wednesday, September 21, 2016 7:17 PM
To: Petsche, Nadine (TBS); Paul, Joshua (EDU)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

I can't say that I'm totally following the email below, but will read it again in the morning.

Is there a way to provide the funding valuations – preliminary and final for each of the years that a change in the indexation was made, provided that the difference in those valuations can isolate the impact on the reduction in payments that are due from the Province to the plan?

Cindy

From: Petsche, Nadine (TBS)
Sent: September-21-16 6:58 PM
To: Paul, Joshua (EDU); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

Understood. I defer to Cindy. I don't get the impression that she is going to consider the \$4.3 B as an asset anyway given her position on 'unilateral' right to access and mandatory requirement for agreements to be in place as at year-end. Since it isn't our position that the \$4.3B is what we would put forward as the asset value, there may not be much value in trying to push for the detailed calc, especially given the relationship implications.

Cindy will provide her perspective shortly.

Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 6:52 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Just to be clear, i'm not advocating for contacting the OTPP.

If we can deliver what she needs and we feel comfortable giving her without involving the plan, great.

But if you feel this is required, we'd facilitate and make sure people here at our DMO and MO know what is happening when.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 6:45 PM
To: Veinot, Cindy (TBS)
Cc: Paul, Joshua (EDU)
Subject: FW: Share the Pain

Please let us know how to proceed. Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 4:52 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Share the Pain

So, as discussed, they want the actuarial analysis that is conducted or directed by the OTPP.

Presumably, she will need to go to OTPP to make sense of the actuarial stuff.

We need to let people know up the line here if we're going to support that direction for the AG's efforts.

Let us know,

jp

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:43 PM
To: Killoch, Alex (MOF)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Subject: Re: Share the Pain

I get the impression is is the details behind the specific amounts that have been communicated (add to 8.6?)

From: Killoch, Alex (MOF)
Sent: Wednesday, September 21, 2016 4:41 PM
To: Petsche, Nadine (TBS)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Subject: RE: Share the Pain

You mean all the assumptions that the OTPP external actuary would use to calculate this PV or the underlying model that is used to calculate the value of conditional indexation out indefinitely?

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:36 PM
To: Killoch, Alex (MOF)
Subject: Re: Share the Pain

Bonnie is asking for all of the numbers behind the numbers to understand how they were calculated. N

From: Killoch, Alex (MOF)
Sent: Wednesday, September 21, 2016 4:18 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: Share the Pain

Hello Nadine

The Ontario Teachers' Pension Plan has provided the following explanation regarding the calculation of the \$4.3 billion reduction in "share the pain" contributions that arose as a result of the Partner's decision to use \$8.6 billion of the January 1, 2016 surplus.

Please let me know if you have any questions.

Alex

Alex Killoch
Director, Broader Public Sector Pensions Branch
Ministry of Finance
416 325-5724
Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

Dear Alex,

As requested and further to our conversation this afternoon, the purpose of this email is to outline the change in the present value of the future “share the pain” contributions from the January 1, 2016 preliminary valuation results of \$6.6B to the January 1, 2016 filed results of \$2.3B – i.e., a reduction of \$4.3B.

Conditional Inflation Protection (CIP) is a key funding lever for the Ontario Teachers’ Pension Plan (OTPP). When CIP is invoked, benefits earned subsequent to December 31, 2009 are subject to inflation protection levels below 100%. CIP levels are established when a funding valuation report is filed with the regulators. The level remains unchanged until a subsequent valuation is filed at which time the plan sponsors may decide to increase or decrease the percentage. This decision is informed by the funded status of the plan as at the valuation date.

In the January 1, 2016 preliminary valuation, CIP levels were 70% (in accordance with the most recently filed valuation report). The reduction in liabilities due to providing less than 100% inflation protection was \$6.6B. The vast majority of this amount was in respect of active plan members. As a reminder, the OTPP utilizes an aggregate valuation funding method where the liabilities include future pension benefits in respect of both service accrued to date and service that is projected to be earned in the future. This valuation method recognizes the potential impact of reducing CIP levels below 100% on not just service from December 31, 2009 to the valuation date but also on service projected to be earned in the future for

current plan members. As an example, the valuation results assume that a member who joined the plan in 2015 will receive 70% inflation protection on the full pension entitlement they will eventually earn over their future career and that this reduction will apply each and every year for the remainder of their lifetime.

For every dollar that a member forgoes in inflation protection, the province and other employers contribute an extra dollar to the pension plan – i.e., their share the pain payment. Thus, for the 1.1.2016 preliminary valuation, given the present value of benefits to reflect less than 100% indexing for service earned after 2009 was \$6.6B, the present value of future share the pain contributions was also \$6.6B.

The plan sponsors chose to file the January 1, 2016 valuation using some of the preliminary surplus to increase the level of inflation protection from 70% to 90%. As a result, the reduction in liabilities due to providing less than 100% inflation protection decreased to \$2.3B as did the present value of future share the pain contributions. Overall, the effect was an increase in liabilities of \$4.3B and a corresponding decrease in the present value of future projected share the pain contributions of \$4.3B.

It's worth noting that for benefits earned after 2013, share the pain payments are limited to the first 50% of forgone inflation protection. It's also worth noting that approximately 98% of the share the pain payments come from the Province – the remainder coming from other employers. Current annual share the pain contributions are significantly smaller as these contributions only apply to retirees that are in receipt of pensions and only in respect of the portion of their pension that was earned after December 31, 2009.

Please let me know if you have any questions or would like further elaboration.

Regards, Mary

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