Share the Pain

From: "Killoch, Alex (MOF)" <alex.killoch@ontario.ca>
To: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>, "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Cc: "Paul, Joshua (EDU)" <joshua.paul@ontario.ca>, "Roberto, Nicole (EDU)" <nicole.roberto@ontario.ca>, "Pomykacz, Rob (MOF)" <robert.pomykacz@ontario.ca>
Date: Wed, 21 Sep 2016 16:18:43 -0400

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

Mary Cover, FSA, FCIA
Director, Pension Strategy & Enterprise Risk
mary_cover@otpp.com
Direct 416-730-2976
www.otpp.com

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

ONTARIO TEACHERS' PENSION PLAN