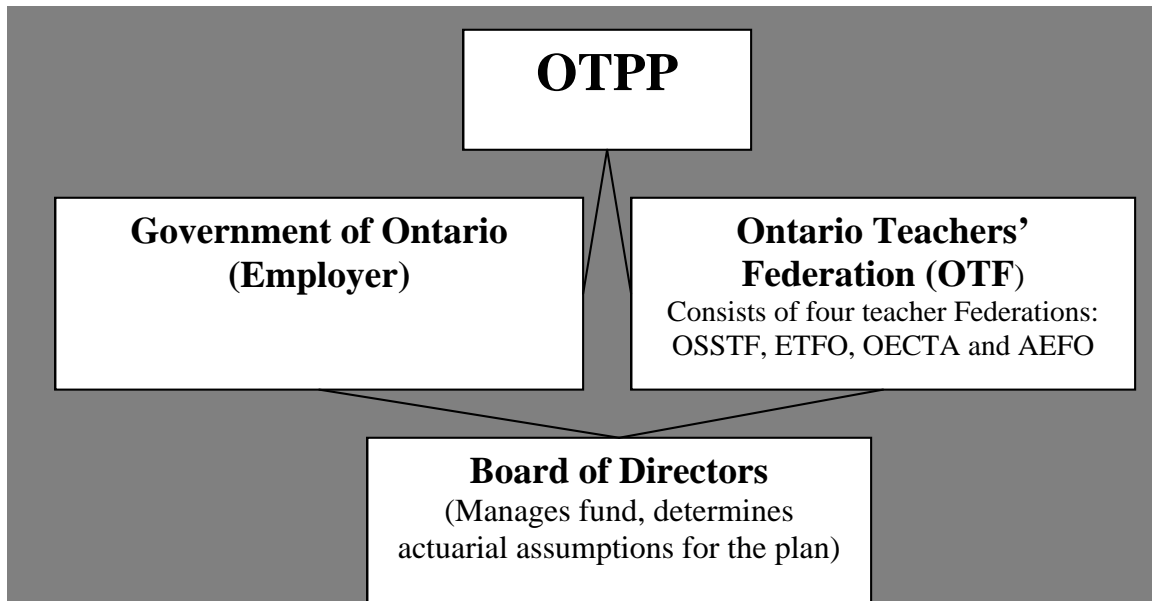


Your Pension Plan: Part 1

By Chantal Mancini

The following is the first of a series of articles that will attempt to de-mystify the Beast: Your Pension Plan. This information is intended to prepare members for the survey that will begin in April 2007. We hope it allows members to make an informed choice.

Who Controls Our Pension Plan?



- There are nine Directors on the Board. Four are appointed by OTF and four are appointed by the government. The Board then jointly appoints one more, in the role of Chair.
- Every three years, by law, the Board must report to the Government and OTF on the state of the Plan. This is called a **valuation**, and is based on **actuarial assumptions**, mathematical calculations that measure future assets against future liabilities. The valuation serves to figure out the pension of all working teachers for the next 70 years. The OTTP uses the **real bond rate** in order to make their predictions, which is different than what other plans use. It is a far more conservative way to predict the future health of a pension plan.
- In 2006, the OTTP found that their calculations indicated that the plan was in deficit. Because they cannot file a report that contains a deficit, they had to recommend changes that would eliminate the shortfall prior to filing the report. The two major changes they recommended were a) raise contributions or b) reduce benefits.
- It was decided that our pension contributions must increase in order to keep the plan healthy. Note that if the OTTP had used less conservative valuation tools, these increases might not have been necessary.
- In 2008, the Board will have to make another report. Based on what has happened with other public-sector pension plans, there have been rumours that they may recommend something beyond further contribution increases. The Board may recommend that the plan's benefits be reduced.

Your Pension Plan: Part 2

By Chantal Mancini

Your Pension Plan Benefits

As previously explained, the most recent valuation of the OTPP indicated it is in deficit. The OTPP Board has recommended two ways to ameliorate this: a rise in contributions, or a reduction of benefits. In April 2007, the OTPP, through a private research company, will be surveying 2400 teachers to ask them if they would rather contribute more to their pension, or reduce the benefits. It is important to understand just what benefits they are talking about.

>>CPP Offset: The amount that a retiree's TPP is reduced when s/he turns 65 and becomes eligible for Canada Pension Plan benefits.

>>85 Factor: The formula currently used to determine when teachers can retire with an unreduced pension. When a teacher's age plus their years of experience add up to 85, they are eligible for retirement with an unreduced pension. (If you're not eligible for an unreduced pension by the time you want to retire, you can take a reduced pension when you are at least 50 and have two or more qualifying years of service.)

>>Pension Amount formula: 2% multiplied by the average of your best 5 years' salary, multiplied by your years of credit

Note, however, that changing any of the above benefits would actually save the OTPP very little. It is the fourth and most important benefit, indexation, which accounts for 25% of the cost of the plan.

>>Indexation guarantees that your annual pension amount rises with inflation, up to 8% per year. It helps to keep your income in line with the cost of living and ensures that your buying power is not reduced with every passing year.

Without indexation, a teacher who retired in 1973 with an annual pension of \$11,000 would be making the same \$11,000 today. However, because our plan currently has this benefit, that same teacher is actually receiving \$52,000.

Indexation is truly the star of our pension plan. It is what guarantees our future financial security. It is important to note that if we lose this from our plan, we will likely never get it back.

Our Pension Plan 101: An Explanation for Newer Teachers

By Chantal Mancini, Teachers 1st Vice-President

You may have heard that OTF is currently in discussion with the Ontario Teachers' Pension Board and the Ontario Government regarding the future of the Ontario Teachers' Pension Plan. This discussion came about because of the alleged financial state of the plan.

The OTPP has told us that while the plan has performed very well on investment returns, its liabilities now outweigh its assets. They say that based on actuarial projections, the cost of paying pensions to future retirees will outweigh the assets the plan has to draw from. Note that these actuarial assumptions are just that--assumptions, and while they aren't just pulled out of thin air, they are still subjective. The OTPP uses one of the most conservative valuation assumptions to calculate its projections over the next 70 years. And the bottom line is that in 2006, our pension plan is still tops. However, we need to closely monitor the discussions that unfold because any changes made today could affect our futures.

You may have read articles in various newspapers that quoted Claude Lamoureux, OTPP President and CEO, where he has argued that contribution increases and reductions in benefits may be in the future. Note that Mr. Lamoureux's job is to administer the plan as negotiated between the Government and OTF, yet he has presented himself as the media spokesperson for the OTPP. This repeated media exposure seems almost a ploy to sway the financial community and the public--including stakeholders-- that 'this is the way it has to be'. OSSTF has stated that we should expect contribution increases, but will not consider benefit reductions at this time. However, this position hasn't been guaranteed for the future.

What exactly do they mean by 'benefit reductions'? What benefits does our pension plan have in the first place--and why should we be worried if they are reduced? Some examples of benefits that could be targeted are the 85 factor, which is the formula used to determine when teachers can retire with an unreduced pension (years of service+age=85), or the CPP offset (the amount your TPP is reduced when you turn 65 and can collect CPP.) Perhaps the most important benefit that we have under the OTPP is termed 'indexation'. 'Indexation' is similar in definition to 'COLA', or Cost of Living Adjustment. COLA is used to adjust future benefits on an annual basis in order to keep pace with inflation. Without it, a 55-year old retired teacher who begins collecting \$45,000 in pension benefits in 2006 will be still be collecting that same \$45,000 in 2046 at age 95. Without factoring in inflation and cost of living, the purchasing power of a person living on a fixed pension will decrease every year after retirement. By 2046, \$45,000 may not even be enough to live on.

Removal of this benefit is referred to as 'de-indexing'. Why could newer members especially be affected by 'de-indexing'? As an example, let's look to HOOPP, or the Hospitals of Ontario Pension Plan. HOOPP underwent some major changes in 2005--owing to the similar pressure that the OTPP is now experiencing. They reduced their benefits--specifically in the area of indexation. Under the new rules, a member who has pension service acquired after 2005 will get guaranteed COLA on the pre-2006 part of his/her pension, but only 'ad-hoc COLA' on the rest. 'Ad-hoc COLA' means that COLA is only provided when HOOPP's Board determines the plan's circumstances permit it. So if the plan doesn't do well that year, pensioners are out of luck--their income will stay the same. And if the plan continues to do poorly, they may find themselves with no COLA at all for a continued number of years.

If OTPP moved to a similar model, those of us at the beginning of our careers will be the most greatly affected. The majority of our working years where we contribute to our pension plan would not translate into years of pension income with inflation protection. Our purchasing power and subsequent standard of living could be at risk of decreasing every year we are on pension. Considering that statistics show that many of us will live to a ripe old age, this is a scary prospect.

I need to reinforce again that there is no need for panic---our Pension Plan is still healthy and performing well compared to other plans. But this said, we must continue to pay close

attention to discussions surrounding pension plan, and filter the media hype through critical lenses. The next year or two will be crucial as we look to the future of both our plan and of our ‘golden’ years. As perhaps the group with the most at stake, newer members will need to ensure that their voices are heard. In part due to District 21’s efforts, OSSTF will be taking a non-binding membership vote in the fall. At this time, members across the province will be able to send a clear message to our provincial representatives as to whether we support their position or not.

A Pension Plan Primer: What the Terms Mean

(If, like me, you never took economics or business in high school—these terms will be helpful.)

Actuary: A professional person trained in mathematics, statistics, and accounting and the principles of operation of insurance, annuities, and retirement plans. The actuary determines, on the basis of existing experience, the estimated costs of future losses.

Annuity: a regular income stream paid to an individual from a lump sum investment, usually for the purposes of retirement income.

COLA: Cost of Living Adjustment. The change (usually an increase) in wages or pension benefits to keep pace with the change in the cost of living due to inflation.

CPP Offset: The amount that a retiree’s TPP is reduced when s/he turns 65 and becomes eligible for Canada Pension Plan benefits.

85 Factor: The formula currently used to determine when teachers can retire with an unreduced pension. When a teacher’s age plus their years of experience add up to 85, they are eligible for retirement with an unreduced pension.

Inflation: An increase in the general price level of goods and services; alternatively, a decrease in the purchasing power of the dollar.

Indexing: Indexing is designed to provide protection against inflation. See the definition of COLA.

OTF: The Ontario Teachers’ Federation, who is comprised of four Ontario teacher affiliates: OSSTF, ETFO, AEFO, and OECTA. The OTF and Ontario Government are co-sponsors of the OTPP. Together they determine the contribution rate and negotiate benefit changes, as well as share responsibility for surplus and shortfalls.

OTPP: Ontario Teachers’ Pension Plan. The OTPP Board and Management oversee the investment of the pension plan’s assets, collect contributions, and pay out benefits.

Valuation: A value estimate or opinion, or the process of estimating value. A valuation report is usually a written document setting forth an opinion of a pension plan’s value as of a specified date, supported by the presentation and analysis of relevant data.

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