

COMMUNIQUE



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PENSION UPDATE

2011 Valuation Discussions

THE ONTARIO TEACHERS' PENSION PLAN HAS LOTS OF MONEY IN THE FUND, BUT...



Each year, an independent actuary prepares a financial assessment of the Ontario Teachers' Pension Plan based on best-estimate assumptions. This "valuation" examines Plan assets and liabilities, projecting 70 years into the future. The Partners—the Ontario Teachers' Federation (OTF) and the Ontario Government—must then decide whether to "file" that valuation with the regulators. To file the valuation, the Plan must be fully funded, that is, without a deficit. Legally, public pension plans must file a valuation at least every three years showing that they are fully funded. Filing can occur sooner, if the Partners decide it is in the best interest of the members.

valuation for January 1, 2011 has been presented to the Partners, showing a \$17.2 billion deficit. In determining whether we should file this year's valuation with the regulators or wait until next year, the Partners are considering projections for next year's valuation and the measures that would have to be implemented in order to file a valuation this year.

The future security of the jointly sponsored Ontario Teachers' Pension Plan (OTPP) is not in doubt. Featuring matching contributions from the Ontario Government, it is a well-run plan with net assets totalling \$107.5 billion as of January 1, 2011. Because it is a defined benefit plan, the OTPP promises a certain level of income for as long as pensioners (or their eligible survivors) live. A complex actuarial process is necessary to determine whether today's contributions and investment income will fund tomorrow's pension promise for current contributors.



The Partners last filed the 2009 Valuation. They have the option to file early for January 2011, or to wait until the mandatory filing required for January 2012. The preliminary

THE ROLE OF THE SUSTAINABILITY WORKING GROUP (SWG)...



This tri-partite working group, consisting of representatives from OTF, the Government, and Plan management, was formed in 2009 to study



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ways to keep the Teachers' plan secure and affordable well into the future. The SWG agreed to employ a series of processes to encourage transparency, accountability, and improved communications. These include:

- a review of the rate of return assumption, used to estimate the future cost of teachers' pensions;
- formalized annual consultations among the parties; and
- a review of all options, including possible changes to contribution and benefit levels, should a valuation show a projected funding shortfall.

In the filing of the 2008 Valuation, the Partners agreed that, as an option to deal with potential future shortfalls, contribution increases could be used up to a maximum of 15%. As a second option, conditional inflation protection for pension credit earned after 2009 was introduced. In a deficit situation, the Partners can also decide to make changes to other pension benefits that members will earn in the future, or adopt a combination of these measures to bring the Plan into balance.

WHAT IS HAPPENING NOW?

The Partners and Plan management are attempting to reach consensus concerning the risk assumptions (longevity, interest rates, investment returns, etc). These assumptions determine the Plan's future liabilities and assets. The assets must at least equal the liabilities to ensure its viability for current and future contributors. The Partners and Plan



are considering whether prudent adjustments to these assumptions can mitigate the \$17.2B deficit reported by Plan management in its Annual Report released on April 5, 2011. Ultimately, the Partners will decide whether it is in the best interest of plan members to file a 2011 Valuation. However, should the Partners decide not to address the deficit and file the 2011 Valuation, it may be more difficult to balance the Plan for a required filing in 2012.

WHAT MAY HAPPEN?

If the Partners and Plan agree to file a balanced valuation this year, you will be informed of the possible changes to your pension, how these changes resolve any funding shortfall, and how they will be implemented.



We will continue to keep you informed as discussions continue.

For further information visit fundingyourpension.com or contact OTF's Director of Pension & Economic Affairs at (416) 966-3424 or 1-800-268-7061

