

COMMUNIQUE

OTF/FEO

March 6, 2006

Volume 11, No. 3

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PENSION UPDATE

Talks with Government Progress

During this school year, you have heard from us about very important talks with the Ontario Government regarding your Pension Plan. These talks address the long-term funding deficiency in the Ontario Teachers' Pension Plan (OTPP).

Since we last reported to you in October 2005, the Executive has had more meetings with our Government Pension Partner. We are pleased to report that we have substantial agreement on the following issues:

- that a January 1, 2005 valuation should be filed;
- that there should be no reduction in the benefits in the Ontario Teachers' Pension Plan;
- that an increase in contribution rates for both teachers and Government is unavoidable; and
- contribution rate increases will be phased-in.

Based on expert advice, OTF and the Government representatives have approached the Ontario Teachers' Pension Plan Board of Directors to request a review of the assumptions used to calculate the Plan's assets and liabilities in the valuation.

Actuarial Assumptions

These are the figures and estimates that an actuary uses when making an actuarial valuation. Assumptions can include how long teachers will work, how long people are expected to live, estimates of future inflation, how much people are expected to earn, and the expected future returns from the pension plan investments.

Actuarial Valuation

This is an assessment done by an actuary, at least once every three years. The actuary will work out how much money needs to be in the Plan to ensure that pensions can be paid in the future—in the case of the OTPP over the next 70 years.

Filing Valuation

The *Pension Benefits Act* requires that a valuation be filed at least every three years. If the actuary predicts a shortfall or deficit, steps must be taken immediately to eliminate it.

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BACKGROUND

Why have these talks been happening?

You are probably asking, "If the Plan keeps making money and increasing the total assets why is there a problem?" That's a good question. The answer is that the liabilities keep growing as well. At the end of 2004, the number crunchers at the OTPP told Plan members that the Plan would need to have \$96.7 billion to pay all pensions for the next 70 years. (That's the time line the law says they must use.) The actual total of the assets was \$88 billion. There are two separate reports on the Plan—investment performance and funding status.

Investment Performance

The Plan annually reports on how well its investments did over the year. The performance of the investments in the last three years has been excellent, increasing the Plan assets. For 2004, the Plan had a return of 14.7% on investments increasing the assets by \$8.6 billion to \$84.3 billion.

Funding Status

At the end of every year, the OTPP has an independent actuary conduct a valuation of the Plan. To determine the financial health of the Plan, the actuary compares the assets to the liabilities. For the Pension Plan, the liabilities are how much money must be set aside now for each pension to be paid for every member of the Plan—active or retired. (The liabilities vary according to economic conditions both in the short and long term.)

If the assets match the liabilities, the Plan is fully funded. If the assets are greater than the liabilities, the Plan has a surplus. If the liabilities are greater than the assets, the Plan has a deficit or funding deficiency.

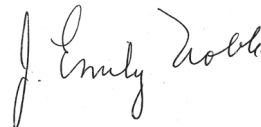
In 2004, the Plan's liabilities grew faster than its assets grew. The bottom line was an increase in the funding deficiency.



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