Top 5 Inflation Protection Q&As

1. ***How will the change in the cost-of-living provision affect me?***

Retired members
You will continue to receive 100% inflation protection. The change in the cost-of-living provision will not apply to current pensioners.

Working members
Annual cost-of-living increases will be based on two components:

1. The portion of your pension credit earned before 2010 will still be 100% protected against changes in the cost of living.

2. The portion of your pension credit earned after 2009 will be 100% protected against cost-of-living increases as long as the plan has sufficient assets. If the plan has insufficient assets, cost-of-living increases for pension credit earned after 2009 will be between 50% and 100% of the change in the Consumer Price Index (CPI), depending on how much the plan can pay.

Government
The Ontario government is seeking legislative authority to continue to share pension costs by making extra payments equal to any cost-of-living increases members forgo due to a funding deficiency.

The combined effect of members receiving smaller cost-of-living increases and the government contributing matching funds will mitigate future funding deficiencies.

2. ***Can you provide examples of how the new cost-of-living provision will work?***

Here's how the cost-of-living change could affect three fictitious members – one retired, one nearing retirement and one young teacher.

Jacques - retired
The change does not affect Jacques. The value of pensions being paid to retired members is protected by legislation.

Jacques' pension will continue to keep pace with changes in the cost of living, as measured by the CPI.

Mary – near retirement
Mary will have 20 years of pension credit when the new cost-of-living provision goes into effect. She will work for five more years and then retire with an annual pension of $40,000.

Full (100%) inflation protection will be:
• guaranteed for 80% of her pension (20 of 25 years of credit)
• dependent on the plan's financial status for 20% of her pension (5 of her 25 years of credit)

Here's how a 2% inflation increase could affect Mary's $40,000 annual pension if the plan paid 100%, 75% or the minimum 50% of the cost-of-living increase on pension credit earned after 2009.

	Cost-of-living increase		
Credit earned:	**100%**	**75%**	**50%**
Until Dec. 31, 2009	$640	$640	$640
After Dec. 31, 2009	$160	$120	$80
Total annual increase	**$800**	**$760**	**$720**

In this example, the 75% or 50% CPI increase would remain in effect until the plan has sufficient funds to provide full inflation protection again. If there is enough surplus, pension payments could be further increased to the amount they would be with full inflation protection.

Aarti – new teacher
Aarti will have five years of pension credit when the cost-of-living change is introduced. Assuming Aarti retires with 25 years of credit, full inflation protection will be:
• guaranteed for 20% of her pension (5 of 25 years of credit)
• dependent on the plan's financial status for 80% of her pension (20 of her 25 years of credit)

Here's how a 2% inflation increase could affect Aarti's $40,000 annual pension if the plan paid 100%, 75%, or the minimum 50% of the cost-of-living increase for credit earned after 2009.

	Cost-of-living increase		
Credit earned:	**100%**	**75%**	**50%**
Until Dec. 31, 2009	$160	$160	$160
After Dec. 31, 2009	$640	$480	$320
Total annual increase	**$800**	**$640**	**$480**

In this example, the 75% or 50% CPI increase would remain in effect until the plan has sufficient funds to provide full inflation protection again. If there is enough surplus, pension payments could be further increased to the amount they would be with full inflation protection.

3. ***Should I retire before the cost-of-living provision is changed?***

Don't rush into retirement because of fears of losing inflation protection. The intention always will be to pay 100% inflation protection. The change in the cost-of-living provision will affect only that portion of your pension earned after 2009. It will not apply to any pension credit earned before 2010.

For example, let's say you have 20 years of pension credit on Jan. 1, 2010, and you retire five years later. Guaranteed 100% inflation protection will apply to 80% of your pension (20 of 25 years) and 50% to 100% inflation protection will apply to the remainder (5 of 25 years).

4. ***Why was this solution selected?***

The OTF and the Ontario government, in co-operation with pension plan management, conducted extensive research on the assumptions used to value the plan, the safeguards put in place by other Canadian pension plans of a similar size and maturity, and the preferences of working members.

Based on this due diligence, the OTF and the government determined that further contribution increases would not be a sustainable way to address the plan's funding challenges in the long term and that, of the benefit changes possible, the most palatable option among working members is to change the way cost-of-living increases are determined when there is a funding shortfall.

5. ***How can this solution help the plan's bottom line?***

Basing the level of inflation protection on the plan's funding status will help pension plan administrators manage funding challenges stemming from plan maturity.

The solution allows both working teachers and future pensioners to share the risks, rewards and responsibility of funding the pension promise.

Because inflation protection will be dependent on the plan's funding status, the plan can afford to take an appropriate level of risk to earn the investment returns required to pay pensions.

Courtesy of Ontario Teachers' Pension Plan