communiqué

To: Active plan members
From: Teachers' Pension Board of Trustees
October 29, 2012

Teachers' Pension Plan

2011 Actuarial valuation results released:
Find out what this means for you

Effective July 1, 2013, both member and employer contribution rates will increase by 1.3 per cent of salary. This decision follows an independent actuarial valuation of the Teacher's Pension Plan (TPP) as at December 31, 2011.

This document will explain why the rates are being increased, what a valuation is and why it is so important—and we'll tell you what you need to know about the long term health of your plan.

We recognize that a contribution rate increase at any time can be difficult. The increase is necessary in order to maintain the long-term health and financial stability of the plan and to ensure that the basic lifetime pension promise for all members is met.

The Teachers' Pension Board of Trustees approved this contribution increase after receiving the most recent valuation, which showed the plan's basic account had assets of $19.8 billion and liabilities of $20.7 billion, resulting in an unfunded liability of $855 million. This means the plan is 96 per cent funded—a fundamental sign of the plan's long-term health and sustainability. Trustees are required under the Joint Trust Agreement (JTA), one of the plan's key governance documents, to increase contribution rates in the event of an unfunded liability. An unfunded liability occurs when the money projected to be available (assets) for future pensions is less than the projected costs (liabilities) of paying for those pensions.

While there are many factors that influence the funded position of the plan, three main factors in this valuation drove the need to increase contribution rates. Those factors are that:

- due to the challenging global economic climate the plan has had lower than forecasted investment returns,
- over the last 12 years the average member's life expectancy has improved by about a year and a half, meaning the plan expects to pay out the pension one and a half years longer, and
- the number of active members declined by three per cent, meaning the plan received less in contributions than expected in respect to the previous unfunded liability.

To ensure the plan's long-term sustainability by efficiently meeting or exceeding the pension promise made to plan members, every three years an independent actuary assesses the plan's financial health. The most recent valuation was completed for the three-year period ending December 31, 2011.

On an ongoing basis, the board carefully monitors the financial health of the plan to ensure it remains financially sound. British Columbia Investment Management Corporation (bcIMC), the plan's investment agent, remains focused on holding a well diversified portfolio and follows a disciplined, long-term approach to managing the plan's investments. The plan's asset mix is diversified by asset class and by region for risk management purposes. As trustees, we follow a long-term investment strategy that allows the plan to weather short term market fluctuations. And because of its size and investment strategy, the plan is able to leverage global investment opportunities for capital preservation and growth. This helps the plan remain financially strong and stable.

The Teachers' plan is a pre-funded plan, which means each generation pays for its own benefits. Approximately 80 per cent of the benefits paid are derived from investment returns, with the remaining 20 per cent made up of employer and employee contributions. Our board is focused on ensuring the long-term health of the pension fund.

Results of the 2011 and 2008 actuarial valuations

	2011 ($ millions)	2008 ($ millions)
Basic benefits only:		
Assets	$19,836	$18,258
Liabilities	20,691	18,735
Surplus (unfunded liability)	(855)	(477)

The new contribution rates are shown in the table below. Note: the figures above show the 2008 results, which were used to set the current contribution rate.

Contribution rates as a percentage of salary

	Member		Employer	
	Old rates	Rates effective July 1, 2013	Old rates	Rates effective July 1, 2013
Below YMPE*				
Basic**	8.20%	9.50%	12.20%	13.50%
IAA***	3.00%	3.00%	1.13%	1.13%
Total	**11.20%**	**12.50%**	**13.33%**	**14.63%**
Above YMPE*				
Basic**	9.70%	11.0%	13.70%	15.0%
IAA***	2.00%	3.00%	1.13%	1.13%
Total	**12.70%**	**14.00%**	**14.83%**	**16.13%**

* The YMPE is the Year's Maximum Pensionable Earnings for the Canada Pension Plan. The YMPE for 2012 is $50,100.

** Members and employers both contribute to the Basic Account to provide for the member's basic lifetime pension. These are the rates that will increase.

*** Members and employers also contribute to the Inflation Adjustment Account to provide cost-of-living adjustments, which are not guaranteed. These rates will not change.

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Complete purchases of service before July 1, 2013 to save

Purchase of service costs are based on salary and contribution rates. On July 1, 2013, when contribution rates increase, purchase of service costs will also increase. Purchase of service applications received from employers by June 30, 2013, will be processed using the current (2010) contribution rates. For more information about purchasing service and general information about the plan, please see the plan's website at tpp.pensionsbc.ca.

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