

Teachers' Pension Plan

Backgrounder



More information about the Teachers' Pension Plan and its benefits can be found online at tpp.pensionsbc.ca.

General

The BC Teachers' Pension Plan is the 8th largest pension plan in Canada, with \$15.4 billion in assets. Members include teachers, vice-principals, principals, and superintendents with 66 school boards across the province. There are nearly 47,000 active members working and making contributions to the plan and 28,500 retired members receiving their pensions.

How the Teachers' Pension Plan is governed

The Teachers' Pension Plan is governed by a joint trust agreement, which is available under Board Publications on the plan's website, tpp.pensionsbc.ca.

Joint trusteeship is the shared management of the pension plan by appointees of the plan partners. The plan partners are the BC Teachers' Federation and the provincial government. The partners are responsible for appointing the board of trustees.

The Teachers' Pension Board of Trustees is responsible for managing the pension plan. The board may change the plan rules if they are directed to do so by the plan partners and certain conditions are met. The board can also amend the pension plan rules as long as the changes can be funded by pension fund surpluses or are cost-neutral to the plan. The joint trust agreement sets out conditions for the board to follow in implementing certain changes.

Pension legislation and plan rules

The *Pension Benefits Standards Act* protects the interests of British Columbia pension plan members by setting minimum standards in areas such as eligibility, vesting, portability, survivor benefits, employer contributions and disclosure to members. This document is available at: www.qp.gov.bc.ca/statreg/stat/P/96352_01.htm.

BC public sector pension plan administrative rules are contained in the Teachers' Pension Plan Rules available on the plan's website.

Role of the board of trustees

The board of trustees has overall responsibility for managing the pension plan, including providing direction to the plan agents, the BC Pension Corporation and the BC Investment Management Corporation.

Role of the British Columbia Pension Corporation

The BC Pension Corporation provides benefit administration services as an agent of the board. The corporation collects contributions, processes benefits and issues pension payments, and provides policy, financial and communication services to the boards.

View the Pension Corporation's website at pensionsbc.ca.

Role of the British Columbia Investment Management Corporation (bcIMC)

The BC Investment Management Corporation provides investment management services as an agent of the board. The corporation is one of Canada's largest investment managers, administering more than \$79 billion in assets on behalf of public sector pension plans, the provincial government, public trusts and insurance funds.

View the bcIMC website at bcimc.com.

How the plan works

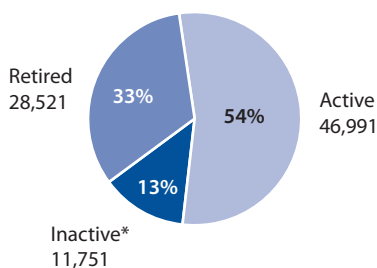
Members and employers make contributions to the plan, based on a percentage of the member's salary. Plan members are entitled to a pension at earliest retirement age if they have worked and contributed to the plan for at least two years. The amount of this pension is calculated using (in most cases) the following formula:

$(2\% \times \text{the member's five-year highest average salary} \times \text{the member's total pensionable service})$ less the bridge benefit

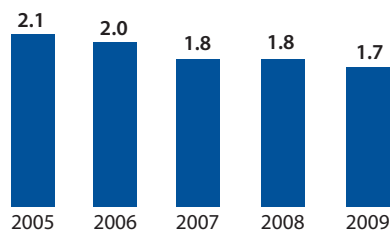
The member receives the bridge benefit, which is an extra amount intended to bridge the member until they become eligible for Canada Pension Plan benefits, up to age 65 or death, then the bridge benefit stops and the member (or their beneficiary) receives only the lifetime portion of the pension.

Plan Membership

Membership Profile



Ratio of Active Members to Retired Members Year ended December 31



* Members no longer employed, but with money in the plan.

Benefits

Defined benefit pension plan

The Teachers' Pension Plan is a defined benefit pension plan. This means the amount of a member's basic pension payment is calculated using a formula based on the member's highest average salary, years of service and age at retirement. Pension payments do not depend on how much a member contributes to the plan or on the performance of investment markets while the member is working or after the member retires.

With this type of pension plan, members know well ahead of time how much the basic pension payment will be, and that it is guaranteed. This certainty allows members to make decisions and plan for retirement.

Basic lifetime pension payment—guaranteed

The basic pension payment (the monthly payment each retired member receives) is guaranteed to be paid for as long as the member lives and may continue to the member's spouse or dependant after the member's death.

The plan can make this promise because the board manages the plan's assets to ensure there is enough money for current and future pensions. Every three years, an independent valuation is conducted by the plan actuary to determine if the plan is sufficiently funded. (An actuarial valuation is an assessment of the financial health of a pension plan by an independent actuarial consulting firm.) If this valuation determines there will be insufficient funds to meet the board's basic pension promise to members, the board must increase employer and member contribution rates.

Other benefits—not guaranteed

Retired members have access to an unsubsidized group dental plan for which they pay full premiums. They currently have access to group extended health benefits, with premiums subsidized based on members' years of pensionable service. Additionally, cost-of-living adjustments to retired members' pensions are currently granted if there are sufficient funds available in the plan's inflation adjustment account. Cost-of-living adjustments and subsidies for group extended health benefit premiums have never been guaranteed. See the funding explanation graphic below.

Post-retirement group benefits

Beginning in January 2012, subsidies for extended health premiums will be discontinued; members will have access to a voluntary group extended health plan, for which they will pay full premiums.

Cost-of-living adjustments

Annual cost-of-living adjustments matching the Canadian Consumer Price Index have been granted to all retired members every January since the early 1980s, except this year. Due to a 0.9 per cent drop in the CPI from September 2008 to September 2009, no cost-of-living adjustment was granted for 2010. Pension payments for 2010 were not changed or reduced because of the deflation. Once granted, cost-of-living adjustments become part of the guaranteed basic pension benefit.

As of July 1, 2010, active members' contribution rates will be increased by an additional one per cent of salary, with this funding going directly to the inflation adjustment account (IAA) to strengthen the plan's ability to provide cost-of-living adjustments to retired members' pensions. This is in addition

to a 1.04 per cent increase for active members and employers, also effective July 1, 2010, that was announced October 15, 2009 as a result of the 2008 actuarial valuation. In aggregate, then, active members' contribution rates will rise by 2.04 per cent of salary effective July 1, 2010.

Effective January 1, 2012, employer contributions that currently fund group extended health benefits for retirees will instead flow entirely to the IAA to pay for cost-of-living adjustments for retirees.

As of January 1, 2012, cost-of-living adjustments will be granted only to retirees who have reached the age of 56.

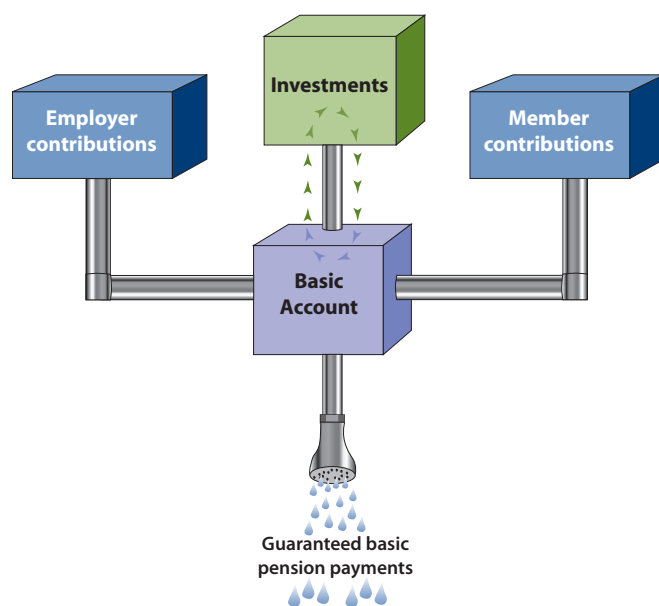
Effective July 1, 2010, the plan partners have altered the joint trust agreement so employers will contribute an additional one per cent of salary to the IAA when the plan's basic account is fully funded and the employer contribution rates to the basic account can be reduced as a result.

Pension plan accounts—how benefits are funded

Two accounts are used to pay pension and other benefits: a basic account and an inflation adjustment account (IAA).

Basic account

Basic pension payments are paid from this account. Employer and plan member contributions are invested and the resulting funds are used to pay retiree pensions. The following diagram illustrates the flow of money to and from the basic account.



Inflation adjustment account (IAA)

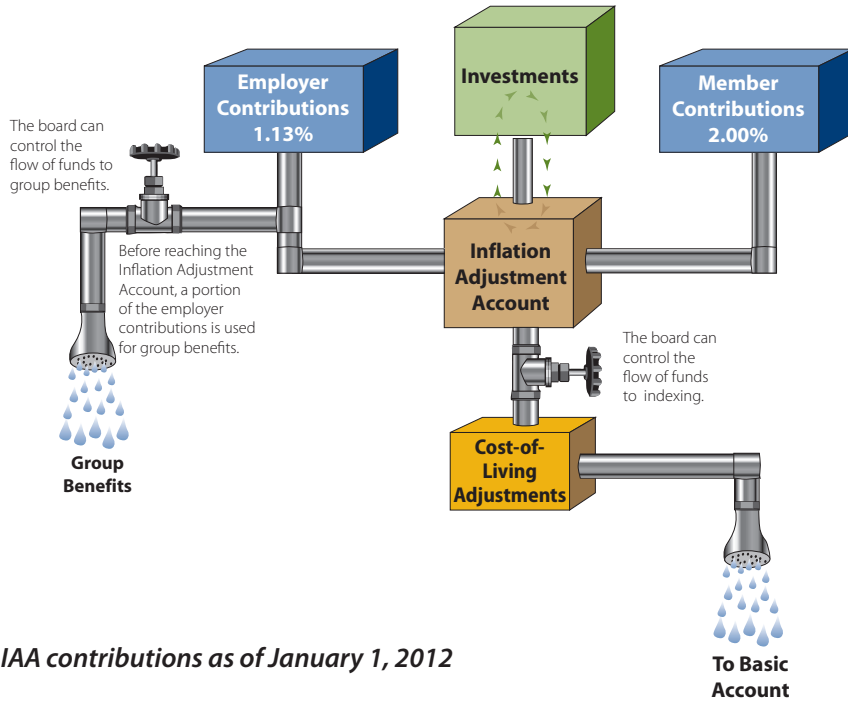
Cost-of-living adjustments are paid from this account, which is made up of employer and member contributions and investment income from those contributions. Since the IAA was created in the early 1980s, a portion of the employer contributions meant for the IAA has been used to fund group health benefits before reaching the IAA.

As costs for group health benefits rise, a smaller portion of the employer contribution flows into the IAA to be invested, which reduces the funds available for cost-of-living adjustments.

Effective January 1, 2012, employer contributions that currently fund group extended health benefits for retirees will instead flow entirely to the IAA to pay for cost-of-living adjustments for retirees.

The diagrams below show how money flows through the IAA now and how it will be directed as of January 1, 2012.

Current flow of IAA contributions



Flow of IAA contributions as of January 1, 2012

