

## **Funding for Your Basic Pension and Other Post-retirement Benefits**

Along with the basic pension benefit, the Teachers' Pension Plan also provides post retirement group benefits (extended health and dental) and pension inflation protection. Unlike the basic benefit, these benefits are not guaranteed; they are provided only to the limit of available funding and may be reduced or eliminated at any time. This overview explains how the funding arrangements currently in place determine which benefits the plan can and cannot guarantee.

### **Basic Pension**

Your basic pension (which provides the payment you receive each month) is a pre-funded benefit. This means that it is managed to ensure that there is enough money to pay for current and future pensions. The Teachers' Pension Board of Trustees has the authority and obligation to increase the contribution rates for basic pensions when an actuarial valuation identifies a funding shortfall, as was the case in July of 2004. Because of this funding arrangement, the plan can ensure that your basic pension will be paid for as long as you live and, depending on the option you choose when you retire, may continue to be fully or partially paid to your surviving spouse or beneficiary.

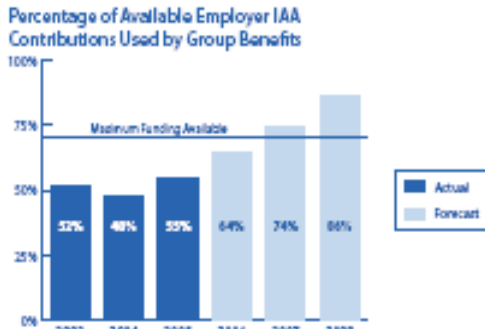
### **Inflation Protection**

Funding for inflation protection is limited to member contributions of 2 per cent of pensionable salary and employer contributions of 1.13 per cent of pensionable salary, plus the investment income from these contributions. Some of the employer contribution is used to fund group benefits (EHB and Dental plans) and therefore is not invested for future inflation protection.

As group benefit costs increase and use up a larger portion of the employer contributions (see "Group Benefits"), and if investment returns generally decrease, there are fewer funds available for inflation protection. At the same time, more funds are needed for inflation protection because there are more retirees and they are living longer. So while the plan can guarantee that inflation protection increases already added to pensions will continue to be paid (they become part of the pre-funded basic pension), it cannot guarantee that these increases will be available in the future.

### **Group Benefits**

Group benefits are paid on a "current cash" basis from premiums paid by retirees, and from a portion of the employer contributions otherwise meant to fund inflation protection (to a maximum of 71 per cent of the employer contribution rate). The following chart shows how the increasing costs of group benefits will exceed this maximum by 2007:



If this funding shortfall occurs, the plan will not be able to continue to provide the current level of group benefits coverage.

The Teachers' Pension Board of Trustees is looking at what kind of inflation protection/group benefits package the plan can provide, given the limited funding available for these benefits.