

FUNDING CHALLENGES FOR RETIREE COST-OF-LIVING ADJUSTMENTS AND GROUP BENEFITS

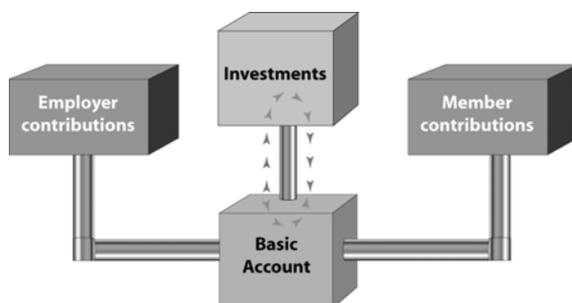
Teachers' Pension Plan benefits

- The Teachers' Pension Plan is a defined benefit plan.
- All retired plan members receive a monthly pension benefit (pension payment). The amount of this payment is based on the member's highest five years' salary, years of service and age at retirement. It does not depend on investment market performance or investment earnings during the member's career or at the time of retirement.
- All retired members also currently receive a cost-of-living adjustment each January to match the increase in the Consumer Price Index for the previous year. Future cost-of-living adjustments are not guaranteed, but once granted they become part of the guaranteed, lifetime pension benefit.
- Retired members currently have access to subsidies for extended health plan premiums. Right now, subsidies are tied to the member's years of service in the plan. For example, a member with 10 years of service pays no premiums, while a member with less than two years of service pays full premiums. Subsidies for extended health plan premiums are not guaranteed, and current benefit levels are not sustainable.
- Retired members currently have access to a non-subsidized group dental plan.

Benefits funding

Basic Pension

- The basic pension benefit is paid from the plan's basic account. This account is financially sound. The following graphic shows how employer and member contributions to the basic account fund guaranteed basic pension payments.



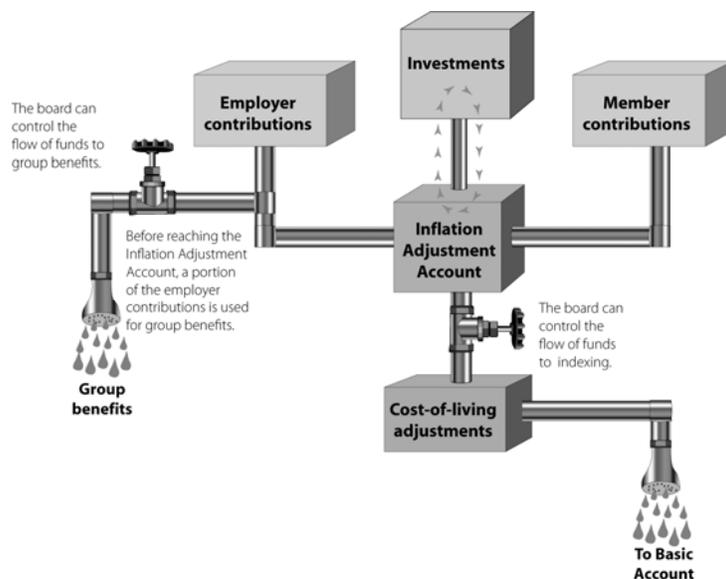
Cost-of-living adjustments and subsidized EHB

- Cost-of-living adjustments are paid from the inflation adjustment account (IAA), while subsidized extended health benefits (post-retirement group benefits) are paid from a portion of the employer contributions that would otherwise go to the IAA.

Under the current funding structure, the IAA balance is shrinking because:

- the ratio of active members to retired members is declining (the ratio in 2001 was 2.8 to 1, but this ratio dropped to 1.8 to 1 in 2008); and
 - costs are increasing for subsidized extended health benefits, which are paid from a portion of the employer contributions meant for the IAA.
- The Teachers' Pension Board of Trustees, which manages the plan, does not have the authority to increase contributions to the IAA. The plan partners—the BC Teachers' Federation and the provincial government—can agree to increase these contributions through bargaining. The board does manage post-retirement group benefit premium rates, but this addresses only some of the funding issues.

The following graphic shows how the portion of the current employer contributions used to fund group benefits affects the funding available for cost-of-living adjustments (indexing). When indexing is granted, the money required to fund the cost-of-living adjustment is transferred to the basic account, where it becomes part of a member's guaranteed basic pension payment.



Current context

- The recent investment market downturn is putting additional pressure on the IAA.
- The continued challenges in funding retiree cost-of-living adjustments and group health benefits will need to be addressed. The Teachers' Pension Board of Trustees is considering its options and is consulting with the plan partners (the BC Teachers' Federation and the provincial government).

For more information about the Teachers' Pension Plan, please visit the website at tpp.pensionsbc.ca