Teachers' Pension Plan

## QUESTIONS AND ANSWERS

# Learn why the Teachers' Pension Plan stands out as a sustainable, fair and cost-effective public sector pension plan.

### Let's talk about … sustainability

*How can you be sure Teachers' Pension Plan is financially sustainable for the long term?*
The plan is designed to maintain a fully funded status. Plan members and employers contribute to the plan each payday, and those funds are pooled and invested. The Teachers' Pension Board of Trustees monitors the health and sustainability of the plan funds through independent actuarial valuations, performed a minimum of once every three years.

The intent of these valuations is to ensure the plan meets its current and future liabilities. If a valuation reports there isn't enough money to pay current and future pensions, member and employer contribution rates increase equally to pay off the unfunded liability and bring the plan back up to a fully funded status.

*British Columbia's population is aging and there are more people retiring from the plan than joining it. Doesn't this mean the plan is unsustainable?*
The plan is pre-funded. This means contributions from members and employers are pooled and invested to pay for each generation's own basic pension in the future. Every generation pays its own way.

*Will members who retire continue to receive cost-of-living adjustments (COLAs) in the future?*
The board is dedicated to ensuring COLAs are sustainable over the long term to equitably support all members—past, present and future. Here is how the funds are managed:

- A small portion of member and employer contributions is diverted into a separate account called the inflation adjustment account, and those funds are invested by the plan's investment agent

- When a COLA is approved, funds from the inflation adjustment account are transferred and applied to retired members' pensions (including the bridge benefit and temporary annuity, if applicable)
- COLAs are not guaranteed. The board decides annually whether to approve a COLA based on a number of factors:
  - the cost of providing COLA cannot exceed the funds in the inflation adjustment account
  - the amount of COLA cannot be higher than the increase in the Canadian consumer price index (CPI) September to September
  - the level of COLA the plan can afford to pay on a sustainable basis is determined by the plan's actuary.

## Let's talk about … fairness

*Aren't taxpayers paying for teachers' salaries and pensions?*

BC teachers are public servants who provide valuable services preparing BC's young for the future. When teachers retire, the vast majority of their pensions are paid through the plan's investment returns. Here's how on average each dollar of a teacher's pension breaks down:

- 75 cents comes from the plan's investment returns
- 25 cents comes from member and employer contributions made while the teacher was working

By contrast, federal programs like the guaranteed income supplement (GIS) are funded entirely by federal tax revenues. Thanks to their pension income, most Teachers' Pension Plan members earn enough in retirement to lift them above the range of eligibility for GIS. As a result, they rely less on taxpayer funds than citizens who don't have the benefit of workplace pensions.

Employers who do not provide pension benefits to their employees are effectively relying on future taxpayers to support those employees in their old age.

### Your pension plan dollar

This dollar is spent by a retired plan member on goods and services in their local community. Here's how it breaks down.


*Does the plan pay for retired members' extended health care and dental coverage?*

The plan has partnered with Green Shield Canada (GSC) to make extended health care and dental coverage available to retired members at competitive rates. Members pay their own premiums if they choose this coverage. The plans available through GSC supplement the coverage available through Medical Services Plan, PharmaCare and other programs.

*Are the plan's financial risks shared fairly between employers and members?*

Employers and members equally share the risks associated with funding the guaranteed lifetime pension. If funding for the plan's basic account falls below what is required by the plan's funding policy, then members and employers each take on a temporary contribution rate increase to pay off the shortfall over 15 years. If actuarial surpluses subsequently arise, contribution rates may be reduced.

However, the financial risks associated with inflation protection are borne by the members.

## Let's talk about … cost-effectiveness

*I'm a teacher. Why is this pension plan better than investing on my own?*

You can provide for your retirement income needs much more efficiently and effectively with the plan than you could if you invested the same money on your own. As a plan member, you benefit from

- the law that requires the pension plan invest in your best financial interest;
- your pension amount not being dependent on the financial markets at the time of retirement;
- pooling of risks across a large group;
- long-term investment returns;
- efficient, professional investment and administration services; and
- matching contributions from your employer.

Teachers' Pension Plan provides a dependable and low-risk source of monthly income.

*How is the plan a good deal for employers?*

The plan is a valuable employee benefit that assists employers with employee recruitment and retention. Compared to single-employer pension plans, Teachers' Pension Plan offers employers

- lower cost
- less risk exposure
- one-stop administrative support
- less administrative burden
- less need for pension expertise, and
- less distraction from their core mission.

This valued benefit is a cost-effective component of the total compensation package employers provide to their employees.

*What are the administration and investment fees?*

The plan's large-scale and professional management enable it to operate very efficiently. The total cost of investment management and pension administration for this plan is significantly less than what individual investors commonly pay for investment management fees.

Annual surveys conducted independently by CEM Benchmarking Inc. confirm that British Columbia Investment Management Corporation, the plan's investment agent, is a low-cost investment manager compared to its peer group. The plan's service provider, BC Pension Corporation, compares favourably to its Canadian and international peers in terms of cost and service levels.

*Want to learn more about the plan? Check out our free online course, Getting to Know Your Pension, or read the Guide for new members—both available on our website: tpp.pensionsbc.ca*