

Retirement Benefits: The Facts & The Challenge

As an active plan member, why do I need to know about retirement benefits?

Knowing what retirement benefits are available, and understanding that some of these benefits are not guaranteed and may change in future, will help you prepare for retirement.

What does it mean for a benefit to be guaranteed or not guaranteed?

When describing retirement benefits, “guaranteed” means the plan can promise it will continue to provide the benefit in the future. An example of a non-guaranteed benefit was the subsidized dental plan that was available to retirees in the past. While the plan still provides retiree group dental benefits, the plan no longer subsidizes these benefits.

If I retire now, what retirement benefits are available to me, and which are guaranteed?

Your basic pension is the payment you will receive each month in retirement. Once you retire, the plan guarantees that this payment will continue for the rest of your life. The plan may also guarantee that all or part of this payment will continue to your spouse or dependant after your death, depending on what kind of pension option you choose.

Inflation protection, or indexing, is an annual increase to your pension payment to offset cost-of-living increases. Once indexing is applied to your pension, it is guaranteed to continue. However, the plan cannot guarantee that it will provide additional indexing in the future.

Group benefits include extended health (EHB), voluntary dental, and Medical Services Plan (MSP) coverage. The plan fully or partially subsidizes EHB premiums, depending on your pensionable service. The plan cannot guarantee it can continue to subsidize EHB premiums in future. The plan does not subsidize voluntary dental and MSP premiums, which means retirees must pay the full premiums for this coverage.

Why are these benefits valuable?

Your basic pension gives you a paycheque for life after you retire from your job. It may also provide income for your spouse or dependant.

Inflation protection helps your pension payment keep pace with the cost of living, and over time can mean significant and permanent increases to your guaranteed basic pension. In fact, the pension payment received today by a member who retired 20 years ago has increased approximately 69 per cent because of indexing.

The EHB and voluntary dental plans use group “purchasing power” to give you access to comprehensive health coverage at a cost that would not be available to an individual outside the plan. These benefits offer good value, whether their premiums are subsidized by the plan or not.

Why are only some benefits guaranteed?

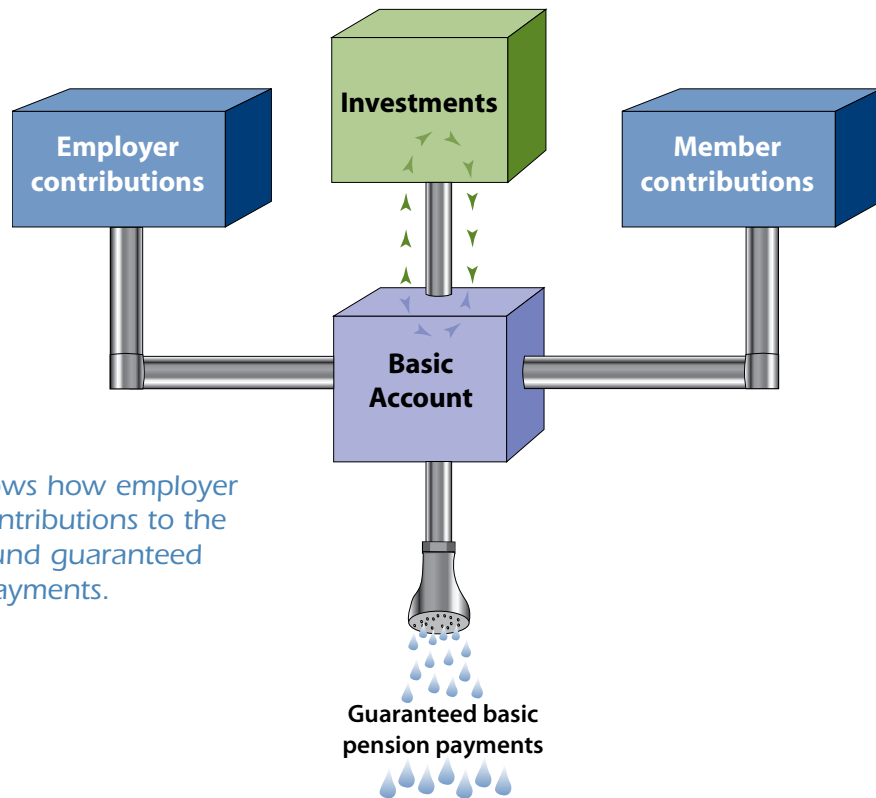
How a benefit is funded determines if it can be guaranteed, as explained below.

Basic pension

Your basic pension is funded by member and employer contributions (set percentages of the member’s pensionable salary), plus investment income from these contributions. The account from which the basic pension is paid is managed to ensure there is enough money to pay 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



2007. Because of this funding arrangement, the plan can guarantee your basic pension will be paid for as long as you live and, depending on the pension option you choose when you retire, may continue to be fully or partially paid to your surviving spouse or your beneficiary.



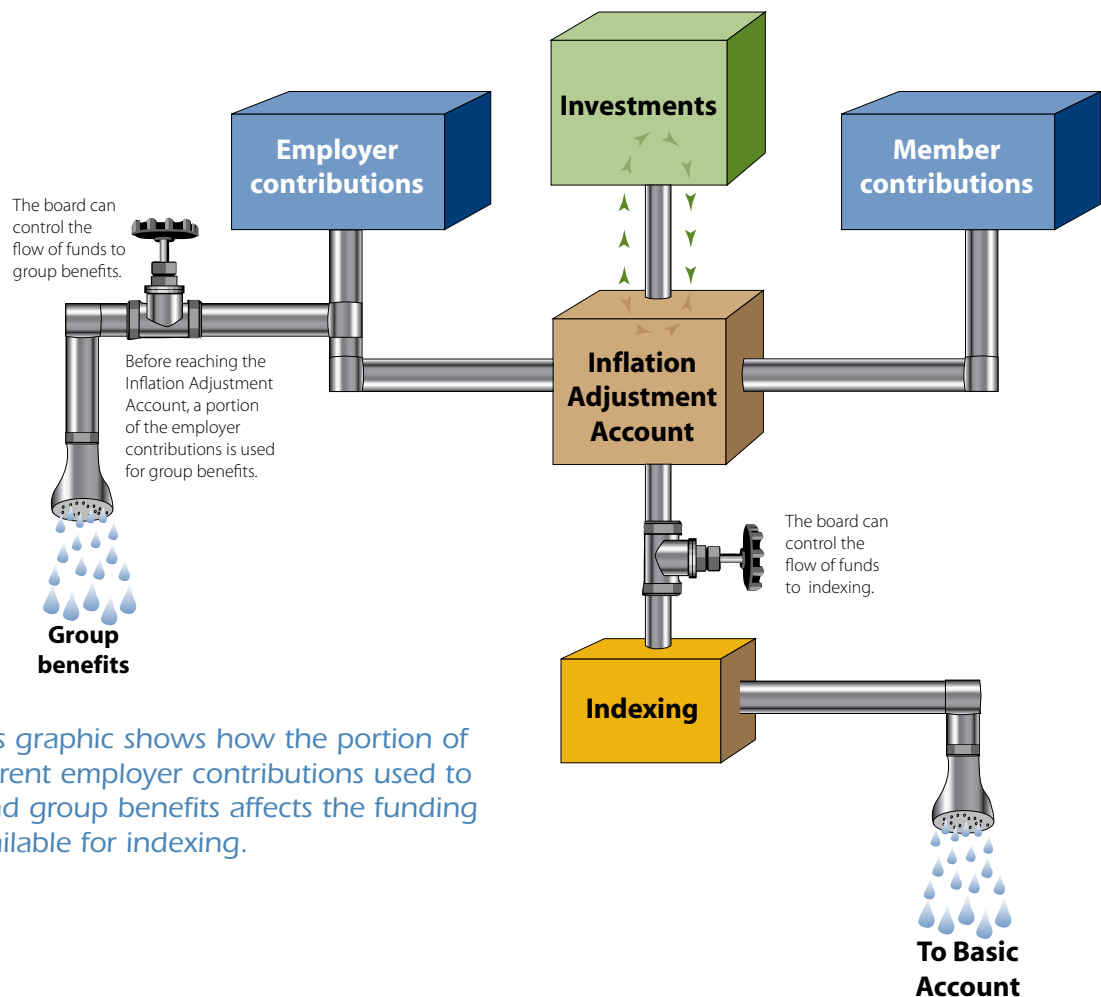
This graphic shows how employer and member contributions to the Basic Account fund guaranteed basic pension payments.

Inflation protection

Inflation protection is funded by member and employer contributions (set percentages of the member’s pensionable salary), plus the investment income from these contributions. Some of the current employer contribution is used to subsidize EHB and so is not invested for future inflation protection. As EHB costs increase and use up a larger portion of the current employer contribution (see “Group benefits”), there is less money available for inflation protection.

At the same time, more money is 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 guaranteed basic pension), it cannot guarantee that further increases will be available in the future.



This graphic shows how the portion of current employer contributions used to fund group benefits affects the funding available for indexing.

Group benefits

EHB is funded on a “current cash” basis from premiums paid by retirees, and from a portion of the current employer contribution otherwise meant to fund inflation protection. Under a board policy, no more than 71 per cent of the employer contribution in a year meant for inflation protection can be used to fund EHB. With these funding limitations and rising costs, the plan cannot guarantee that it can continue to subsidize EHB premiums at the current level. Voluntary dental and MSP benefits are funded solely from premiums paid by retirees, with no subsidy from the plan.

Why can't the board increase the employer and member contributions used for inflation protection and EHB, as it does for the basic pension?

The board doesn't have the authority to increase contributions to the account that funds these benefits. The plan partners—the BC Teachers' Federation and the provincial government—can agree to increase these contributions through bargaining. The board does manage EHB premium rates, but this addresses only some of the funding challenges.

Where are the cost pressures coming from?

For one thing, costs for all benefits are rising.

This is because:

- ▶ drug costs are increasing significantly
- ▶ MSP premiums increased by 50 per cent in 2002
- ▶ PharmaCare coverage changed in 2002
- ▶ the number of retirees (consumers of group benefits) is increasing
- ▶ retirees are living longer, and are using more prescription drugs

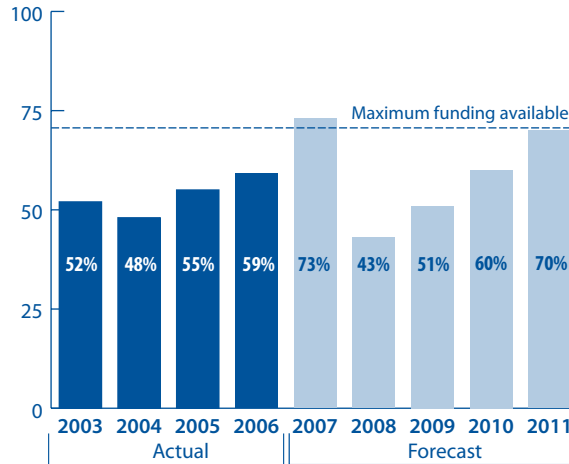
At the same time, the ratio of active members to retired members is declining. Active members' salaries are a major source of funding for group benefits, while retired members are consumers of these benefits. The ratio in 2001 was 2.8 to 1, but this ratio is forecast to drop to 1.8 to 1 in 2008.

What is the board doing about the funding challenges?

The board is carefully monitoring the situation and is looking at what kind of inflation protection/group benefits package the plan can provide, given the limited funding available for these benefits. After reviewing the most recent funding projections in 2006, the board discontinued the subsidized dental plan for retirees on August 1, 2007, and replaced it with an unsubsidized dental plan. This adjustment will temporarily ease cost pressures, which will mean more money in the short term for inflation protection and

EHB subsidies. However, costs will continue to rise over the long term, and there will likely be further changes to EHB coverage and subsidies in the future.

Percentage of available employer IAA contributions used by group benefits



This graphic shows how the discontinuation of the subsidized dental plan will reduce the percentage of employer Inflation Adjustment Account (IAA) contributions used for group benefits and temporarily ease cost pressures. Despite this, contributions used for group benefits will approach the maximum available by 2011.

How can I keep up to date on what post-retirement group benefits are available?

To see what post-retirement group benefits are currently available and what they cost, visit the Publications page in the Retired Members section of the plan's website at tpp.pensionsbc.ca. Group benefits updates are published in the News page in the Retired Members section, and there is a history of past changes in the News Archive page.

Also, more information about some of the topics covered in this pamphlet is available in the *Guide for Plan Members* and various fact sheets, all available on the plan's website.

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