

# **Is the Party Really Over for Ontario Teachers?**

FAIR  
PENSIONS  
FOR ALL

## **All Good Parties Must Come to An End**

Many Ontarians are confused by the current bitter feud between Premier Dalton McGuinty's suddenly-fiscally-conservative government and Ontario teachers.

Ontario taxpayers have been told by the same McGuinty over the past nine years that no amount of money, benefits, concessions and pensions is too much for those hard-working (and loyal Liberals) in our education system. Those same teachers have rewarded McGuinty for his stand with millions in election donations and wholesale support at the ballot box.

Son of a professor and husband to a teacher, not for nothing has he been known as the "education premier".

The party is over and taxpayers need to stop paying the bill for it.

Ontario teachers are among the highest paid teachers in the world, they can afford to pay for their own retirement. Taxpayers should no longer spend further tax dollars funding the Ontario Teachers Pension Fund.

Beginning next year, and for five years hence, taxpayers should divert those billions of tax dollars where they belong, on our children's education. We should use the money to create a capital budget that purchases books, computers and supplies for the classroom. This will give the teachers the tools that they need to teach effectively, and make the classroom a great place to learn again. It will also stop schools from having to beg parents for more money and stop teachers from having to use their own resources to fund the classroom. After five years, this fund would be reduced to \$300 million per year, and the balance, some \$1.1 Billion per year would be returned to the taxpayer.

### **Escalating teacher's compensation**

In 2009 an average teacher in Ontario was earning \$83,500 per year<sup>1</sup>. This is an increase of over 20% in six years. Compared to teachers around the world, Ontario appears to value its teachers far above any other country.

We pay our teachers almost 100% more at the top end than in England for instance and 22% more than Germany - one of the world's strongest economies. Meanwhile the Province of Ontario has a \$220 billion debt<sup>2</sup>, increasing each year by \$15 billion.

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<sup>1</sup> <http://oncampus.macleans.ca/education/2012/03/05/labour-unrest-must-be-infuriating-for-new-teachers/>

<sup>2</sup>

Are these countries all wrong, or has the "education premier" already rewarded his supporters enough, and is merely backing off for a few years to allow everyone else the illusion of catching up? How many years of "no increase" would it take to put our salaries in line with the rest of the world?

<b>OECD - Education Key Tables 2012 <sup>3</sup></b>		
<b>Select countries</b>	<b>Salary at 15 years</b>	<b>Salary at Maximum</b>
Australia	48,233	48,233
<b>Canada <sup>4</sup></b>	<b>78,055 (Step 6 of 10)</b>	<b>94,707</b>
England	47,047	47,047
Germany	68,619	77,628
Japan	49,408	64,135
Mexico	25,905	42,621
USA	47,977	54,666

Note: Figures in US dollars

If we go back to 2003 Ontario had public school enrollment of 2.16 million students and it had fallen 4.3% to 2.07 million by 2009<sup>5</sup>. Back in 2003 Ontario spent \$ 8.0 Billion on teacher's compensation and by 2009 it had risen to \$10.7 billion an increase of 33%.<sup>6</sup> The province has been hiring lots more supporters for Working Families and paying them lots more too.

Currently teachers in Ontario are the highest paid in the world compared to OECD countries with only Luxemburg and Switzerland paying more.

### **The Value of Ontario Teachers Pension Plan**

Like salaries another key indicator of how much we value our teachers is the pension we give them.

The value of the Ontario teacher's pension ranks it as a world leader. It has benefited from some of the best investment managers in the world. In fact if it was in the glorified ranks of Sovereign Wealth Funds it would rank in the top (12th) as well. The \$117 Billion fund for 330,000 teachers and retirees earned \$11.7 Billion in profits last year. This compares to Canada's largest bank RBC that made a measly \$4.85 billion<sup>7</sup> in net income in 2011 and has

<sup>3</sup> [http://www.oecd-ilibrary.org/education/teachers-salaries\\_teachsal-table-en](http://www.oecd-ilibrary.org/education/teachers-salaries_teachsal-table-en)

<sup>4</sup> <http://www.osstfd12.com/Default.aspx?DN=be203086-19c2-4dae-aabb-83078b3245d2>

<sup>5</sup> <http://www.statcan.gc.ca/pub/81-595-m/2010088/tbl/tbla.1-eng.htm>

<sup>6</sup> <http://www.statcan.gc.ca/pub/81-595-m/2010088/tbl/tbla.16-eng.htm>

<sup>7</sup> [http://www.rbc.com/investorrelations/pdf/cfs\\_11\\_e.pdf](http://www.rbc.com/investorrelations/pdf/cfs_11_e.pdf)

millions of Canadians are counting on its profits and dividends returns for their retirement funding.

<b>Sovereign Wealth Funds<sup>8</sup></b> (Selected Funds in Top 15)		
<b>Select Funds</b>	<b>Assets (Billions)</b>	<b>Members</b>
UAE	\$ 627 B	7.9 Million
Norway - Government	\$ 593 B	4.9 Million
China - SAFE	\$ 532 B	1.3 Billion
CPP _ Canada Pension Plan	\$ 167 B	18 Million
Russia - National Welfare	\$ 149 B	141 Million
Ontario Teachers	\$ 117	330,000

This year taxpayers in the Province of Ontario will pump another \$1.4 billion into the teachers pension plan. This will provide teachers with a pension worth 70% of their salary at retirement when fully qualified. A teacher retiring on a fully qualified pension will earn more in the first year of retirement than most teachers around the world are earning in salary when they end their careers.

In addition to the handsome salaries the Ontario government had negotiated a payout on "sick time" which provided an payout up to a maximum of \$46,000. This is a bonus on top of the pension at the end of a teachers career. In comparison the average Canadian taxpayer reaches age 65 with a \$60,000 RRSP.

### **Pensions Plan Funding**

Fully-qualified teacher receive a pension worth 70% of their highest 5 years salary, about \$ 66,000 (including CPP, which they receive at retirement, regardless of age of retirement). A teacher retiring on a fully qualified pension will earn more in the first year of retirement than most teachers around the world are earning in the best year of their careers. This pension is then indexed for life. Ontario Teachers Pension Plan CEO Jim Leech revealed last year that the average teacher works for 26 years and is retired for 32. Average retirement age is 58.<sup>9</sup>

Teachers can also "buy-back" years of pensions to make up for years they don't actually work. This becomes a GIC for life - guaranteed by you the taxpayer. An average teacher makes more income over their retirement than

<sup>8</sup> Sovereign Wealth Fund Institute - <http://www.swfinstitute.org/fund-rankings/>

<sup>9</sup> <http://www.thespec.com/news/business/article/707046--five-questions-with-jim-leech>

they did while working. Retired teachers may also supplement their pension by supply teaching

The Teachers plan currently is funded at a rate of 50/50 between members in the plan and taxpayers. This seems a fair division of contributions but some critics point out that since taxpayers fund the member's salaries as well that in reality, all funding into the plan has come from taxpayers. Over time salary levels have been adjusted to include the annual pension contributions made by plan members.

Contributions into the plan are calculated based on a lower rate to take into account the effect of Canada Pension Plan (CPP) and a higher rate over the annual YMPE (Yearly Maximum Pension Earnings) limit of the CPP.

Currently the higher contribution rate is 13.1% for both employees and taxpayers. Lets look at a teacher at the higher end of the pay scale earning \$95,000 and see what those contributions would be. The CPP is targeted to provide 25% replacement of income.<sup>10</sup>

### **Pension Contribution Estimate**

(for a Salary of \$95,000)

	Employee	Taxpayer
YMPE \$50,100 - 4.95%	\$ 2,479	\$ 2,479
Under YMPE Pension - 10.8%	\$ 5,410	\$ 5,410
Over YMPE - 12.4%	<u>\$ 5,567</u>	<u>\$ 5,567</u>
<b>Total Annual Contribution</b>	<b>\$13,456</b>	<b>\$ 13,456</b>
<b>Total combined annual contribution</b>		<b>\$ 26,912</b>

### **Estimated Pension Income**

(Assuming fully qualified pension with final salary average same as final income)

CPP	\$ 11,800
Pension (2% Times 35 years of last 5 year average)	<u>\$ 54,700</u>
<b>Total Pension Income</b>	<b>\$ 66,500</b>

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<sup>10</sup>

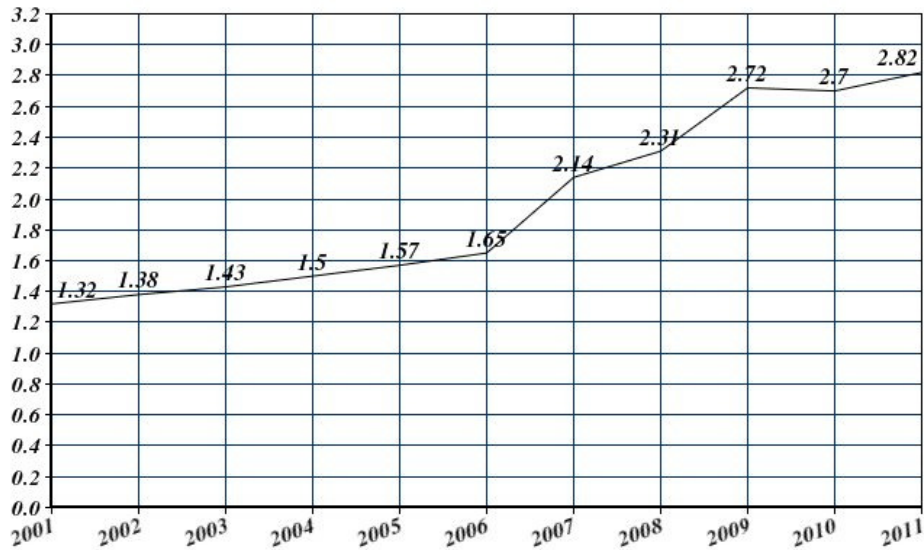
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## Funding History

The OTPP plan has received healthy funding since its inception. The benefits to employees have been "enhanced" many times over the years. Increasing level of benefits and rapidly escalating salaries has driven up the annual amount of contributions required.

All public sector pension plans are in trouble and the money to pay the promises that have been made does not exist. This despite the fact hundreds of billions of dollars are in these plans. The total shortfall of all Canadian public sector pensions is now estimated over \$300 Billion.<sup>11</sup>

Ontario Teachers Annual Pension Contributions (Billions)



Teachers Eleven-Year Review (\$ Billions)

**Pension Myth** - One of the common myths we hear about pensions is that the reason they are in trouble is because of the 2008 market melt down. You can see in the contributions chart that beginning in 2006 another \$490 million a year was pumped into the fund. In 2006 it had an estimated actuarial shortfall of \$6.1 Billion, today it is over \$ 9 Billion. The accounting shortfall is much higher.

<sup>11</sup> <http://www.cfib-fcei.ca/english/article/4034-canada-s-hidden-unfunded-public-sector-pension-liabilities.html>

## New Accounting Rules

In 2011 new accounting rules were introduced under the CICA (Canadian Institute of Chartered Accountant) Handbook. Changes in the accounting field came about as a result of concerns about how pensions were reporting their pension liabilities and what these liabilities really are.

Changes made to how pensions report their funding shortfalls has a dramatic impact on the teachers plan. It is not clear the long term impact these numbers will have pension funding.

### Ontario Teachers Assets and Liabilities<sup>12</sup>

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Net assets	117.10	107.53	96.40	87.44	108.55	106.01	96.13	84.33	75.68
Accrued benefits	162.59	146.89	131.86	118.14	115.46	110.50	110.53	96.73	83.12
<b>(Deficit)/surplus</b>	<b>(45.4)</b>	<b>(39.3)</b>	<b>(35.4)</b>	<b>(30.70)</b>	<b>(6.91)</b>	<b>(4.49)</b>	<b>(14.40)</b>	<b>(12.40)</b>	<b>(7.44)</b>

## Summary

We respect anyone who decides a teachers and decides to dedicate their lives too it. Teaching is an honorable profession and one of the most important careers to the future of our youth. It is a career considered stressful and demanding. To attract the best teachers compensation needs to fairly reflect the demands and challenges of the career. .

Our concerns are what is fair compensation?

In the private sector defined benefit plans have been winding down for the past decade. For example in 2007 there were 1.90 million members in DB pension in the private sector. Two years later this number had dropped to 1.68 million members. This was a drop of 220,000 members in just two year. At this rate these plans will be wound up before the end of the next decade.

To contrast the public sector, defined benefit pension membership rose from 2.64 million in 2007 to over 3.14 million today, a rise of 500,000.<sup>13</sup>

The reason these pensions have been wound up in the private sector is that they are no longer sustainable. Considering plans in the public sector are much more generous than private sector plan, using final salary calculations compared to career average, they are not sustainable in the public sector either.

<sup>12</sup> OTPP Eleven Year Review - [http://docs.otpp.com/annual\\_report/PDF2012/AnnRepFinancials2011.pdf](http://docs.otpp.com/annual_report/PDF2012/AnnRepFinancials2011.pdf)

<sup>13</sup> <http://www.statcan.gc.ca/daily-quotidien/100525/t100525c1-eng.htm>

<http://www.statcan.gc.ca/daily-quotidien/110509/t110509a1-eng.htm>

## Solutions

- Wind down future payments of taxpayer money into the Ontario Teachers Pension Plan
- Move new employees onto a DC plan
- Increase the age of retirement to age 67 to match the Old Age Security program. Currently most police and fire retire at an average age of 53 and the rest of the public sector at age 58.
- Move existing employees onto a DC plan, effective immediately. Give them credit for the time worked. For example a 20 year employee would get 40% (2% X 20 years) of his income guaranteed in defined benefit with future contributions going into a defined contribution plan.
- Place caps on pension income at reasonable levels. For example, in the State of Rhode Island they recently introduced a plan to cap pensions at 1.5 times the state's median income.
- Eliminate double dipping

## Fair Pensions For All

Founded in 2012 FPFA is a non-profit organization and its members actively advocate for public sector pension reform.

Founded by Bill Tufts, Bill has appeared before the *House of Commons* as an expert on labour and pension affairs, he was invited by the *Ontario Finance Minister* to attend and participate in the *2010 Roundtable on Retirement Security* as an industry expert, where he represented the *Chamber of Commerce*. He was invited as a special guest of by the *California Foundation for Fiscal Responsibility* in 2011 to the *Bootcamp for Elected Officials* in Irvine, California

As a policy advisor on pension matters Bill has advised Members of Parliament, Provincial elected officials, City Councillors and Mayors, the Canadian Federation of Independent Business (CFIB), the Canadian Taxpayers Federation, and written pension policy for the Canadian Chamber of Commerce.

Bill's work has been covered in all major Canadian newspapers including the Toronto Star and the Globe and Mail. His articles have appears in the *National Post*, *Montreal Gazette*, *St John Telegraph Journal*, and *Moncton News*