

One-Time Payment to Teacher Inflation Adjustment Account

❖ Overview

This article establishes that the provincial government will make a one-time payment to the Inflation Adjustment Account of the Teachers' Pension Plan on July 15, 2006.

❖ Letter of Understanding No. 5 Re: One-Time Payment to Teacher Inflation Adjustment Account

1. *The parties to this LOU have agreed that Government will make a one-time payment to the Inflation Adjustment Account of the Teacher Pension Plan in the following amount:*

July 15, 2006 \$20,000,0002

2. *The contribution represents an extraordinary (non-recourse) payment, in addition to those which would normally be made to the Teacher Pension Plan/Inflation Adjustment Account. It in no way replaces or amends the obligations of any person to make contributions to the Teacher Pension Plan/Inflation Adjustment Account.*
3. *The parties will work together with the Teachers' Pension Plan Board of Trustees to facilitate the payment provided for under this LOU.*
4. *The parties agree that this extraordinary payment has no recourse or connection, nor does it amend the joint trustee relationship, as the payment is a non-recourse payment to the Inflation Adjustment Account only.*

❖ Purpose

LOU No. 5 was negotiated as a result of BCTF concerns regarding the financial health of the Teachers' Pension Plan Inflation Adjustment Account (IAA).

The IAA is funded through both employee and employer contributions. Employees contribute 2% of salary, and employers contribute 1.13% of salary.

The IAA funds two provisions of retired teachers' pension benefits. The first part funds retired teachers' health and welfare benefits. Enrolment in the health and welfare benefits is optional. The provision of health and welfare benefits is not guaranteed; it is a benefit contingent on available funds. Coverage may be changed at any time, including the extent of coverage and the premiums charged.

The second part of the IAA funds the indexing of retirees' pensions to inflation – the annual pension increase each retiree receives to offset inflation. Past indexing has provided annual increases equal to the Consumer Price Index. However, this indexing is becoming more challenging as more teachers are now receiving pensions, fewer teachers are contributing to the plan, and retirees in general are living longer.

With a continuation of existing funding levels, the IAA is estimated to run out of funds in 2024.

BCPSEA and the BCTF reached an agreement that Government would make a one-time payment to the IAA of \$20 million in recognition of the financial challenges articulated by the BCTF.

❖ Explanation

- 5.1 1. *The parties to this LOU have agreed that Government will make a one-time payment to the Inflation Adjustment Account of the Teacher Pension Plan in the following amount:*

July 15, 2006 \$20,000,0002

This clause establishes the government's obligation to make a one-time payment to the Inflation Adjustment Account of the Teachers' Pension Plan of \$20 million.

- 5.2 2. *The contribution represents an extraordinary (non-recourse) payment, in addition to those which would normally be made to the Teacher Pension Plan/Inflation Adjustment Account. It in no way replaces or amends the obligations of any person to make contributions to the Teacher Pension Plan/Inflation Adjustment Account..*

This clause outlines in detail the nature of the payment as an addition to regular contributions to the Teachers' Pension Plan Inflation Adjustment Account, and specifically states that such a payment creates no additional obligations. In addition, such payment does not amend any person's current and ongoing obligations to make contributions to the Teachers' Pension Plan Inflation Adjustment Account.

- 5.3 3. *The parties will work together with the Teachers' Pension Plan Board of Trustees to facilitate the payment provided for under this LOU.*

This sets out the obligation of the BCTF and BCPSEA to work together with the Teachers' Pension Plan Board of Trustees to facilitate the payment.

- 5.4 4. *The parties agree that this extraordinary payment has no recourse or connection, nor does it amend the joint trustee relationship, as the payment is a non-recourse payment to the Inflation Adjustment Account only.*

This clause clearly details that the special payment does not change the relationship of the parties to the Teachers' Pension Plan or create any further obligations for school districts or government.

❖ Implementation

The \$20 million payment to the IAA was made July 15, 2006. Implementation has now concluded.