



The value of inflation protection

Every January, after you retire, your pension will be adjusted to keep pace with changes in the cost of living, as measured by the Consumer Price Index (CPI). These annual inflation increases protect the purchasing power of your pension.

Inflation protection is provided by only a handful of pension plans in Canada, and accounts for about 25 per cent of the cost of providing your pension. To give you an idea of its value, a member who began a typical \$11,500 pension in 1977 is collecting more than \$39,500 a year in 2007. That's more than a 240 per cent increase! Since inflation protection was introduced in 1976, the annual increase has averaged about 4.7 per cent.

The basics

Who gets an increase?

Inflation protection applies to deferred pensions, survivor pensions, disability pensions and retirement pensions.

If you defer the start of your pension, your first pension payment will reflect changes in the cost of living from the time you left employment in education to the time you began to collect your pension. This means your investment grows while you wait to retire.

How much will you get?

The exact amount of your before-tax increase will be communicated to you each January before the increase goes into effect.

Your first inflation increase is prorated to reflect the number of months in the calendar year after your last month of credit. For example, if you retired in June, you would collect about half of the increase the following year. After that, you would get the full increase.

Similarly, if you selected a deferred pension when you stopped working in education, the increase for the year you stopped working would be prorated.

What is the Consumer Price Index (CPI)?

The CPI, calculated by Statistics Canada, is the most widely used measure of inflation in Canada. It compares the cost of living in one month to the same month a year earlier. The all-index CPI we use tracks the cost of a weighted basket of 600 consumer goods and services that are typically purchased by Canadian households each month. The basket includes food, shelter, clothing, furniture, transportation, gas, home energy, recreation and many other items. Changes in the cost of the weighted basket represent changes in the CPI.

Is there a limit on annual increases?

Increases are capped at eight per cent a year. If inflation is greater than eight per cent, the excess amount is carried forward and applied in a year in which inflation is less than eight per cent.

Calculating your annual increase**Step 1: Calculate inflation factor**

We compare the average monthly CPI for the 12 months ending in September to the 12-month average a year earlier. We then divide the two averages to get the inflation factor. Here's how the factor was determined for the 2008 adjustment:

$$\frac{110.8 \text{ (Average monthly CPI for 12 months ending in September 2007)}}{108.8 \text{ (Average monthly CPI for 12 months ending in September 2006)}} = 1.018 \text{ inflation factor}$$

Step 2: Apply factor to your pension

We apply this factor to your pension. For example, a member who collects a \$36,000 before-tax pension in 2007 will receive a before-tax increase in 2008, as shown below:

$$\text{Member's pension X inflation factor} = \text{New before-tax pension amount}$$
$$\$36,000 \times 1.018 = \$36,648$$

Step 3: Convert factor to percentage

To communicate the size of the increase, we convert the factor to a percentage. Here's how the factor is expressed as a percentage using the 2008 increase as an example.

$$(2008 \text{ inflation factor} - 1) \times 100 = 2008 \text{ percentage increase}$$
$$(1.018 - 1) \times 100 = 0.018 \times 100 = 1.8 \text{ per cent}$$

Why increases vary**How do other plans calculate increases?**

Most other pension plans with full indexation, including those serving Ontario government employees and health-care workers, use the same method we do. The Canada Pension Plan also uses the same method, but its 12-month period ends in October.

Why is our increase different from the inflation rate reported in the media?

Your increase seldom matches the rate of inflation reported in the media. Sometimes it will be higher and sometimes it will be lower. That's because the media compares the CPI for the current month to the same month a year earlier. We compare the average monthly CPI for the 12-month period ending in September to the previous 12-month average.

The monthly rate reported by the media can be volatile because an economic event in either of the two months involved can significantly affect the number. For example, the temporary shock to energy prices that followed Hurricane Katrina caused a spike in the CPI for September 2005.

While annual increases can vary from one plan to another, over time all fully indexed pension plans generate roughly the same inflation protection, regardless of the method used to calculate the increase.

More information

You also can view an audio-visual presentation on inflation on *iAccess Web*, the secure members-only section of our website at www.otpp.com. To register for *iAccess Web*, call 416-226-2700 or 1-800-668-0105, or download and complete the form found on our website at www.otpp.com.