STRP UPDATE

A RETURN TO BALANCE: STRP REACHES FULLY FUNDED STATUS

In December 2021, the STF Pension and Benefits Board of Directors received its valuation report from the STRP's actuary. It showed that, for the first time since 2010, the STRP was 100% funded on a going-concern basis as at July 1, 2021. Total assets increased to $7.2 billion.

Pension plans in Saskatchewan must perform and file valuations with the provincial and federal regulators at least every three years. Funding valuations compare the Plan's assets and liabilities to determine the financial health of the Plan and the contribution level required to fund its long-term pension obligations.

This marks the fifth straight improvement in the Plan's funded status since 2015 when significant changes were made to address a funding deficit caused in large part by the recession in 2008.

ACTIVE MEMBERS RECEIVE PENSION UPGRADE

Current active teachers will be receiving more pension in retirement thanks to a conditional upgrade approved by the STF Executive this spring.

Eligible teachers will receive a 2.7% increase on all pension benefits earned between July 1, 2015 and June 30, 2021. For the average teacher, that works out to about $240 a year in retirement.

Who is eligible?

- Any teacher who provided service under contract in the 2020-21 and/or 2021-22 school year(s) and has not retired or received a termination benefit from the Plan.
- Includes those receiving benefits from the Teachers' Long-Term Disability Plan. Does not include substitute teaching service.

What's the increase?

- 2.7% or about $240 a year in retirement income for the average teacher.

On what service?

- All pension benefits earned between July 1, 2015 and June 30, 2021.

A conditional upgrade is an increase to lifetime pensions that may be granted depending on the funded status of the Plan. It is not a guaranteed benefit. Unlike cost-of-living adjustments that are applied to pensions that are already in pay (e.g., for retired members), conditional upgrades are applied to the earned pension benefits of members that are still working.

The upgrade will be applied to members' pensions on June 30, 2022 and will be shown on the June 30, 2022 annual statements. Annuals statements are mailed to members in December, and after that date, can also be viewed online by logging in to MySTF.

While the Plan does allow for conditional COLA to post-2015 pensions already in pay, retired members are not affected by the increase at June 30, 2022 (though they still received their annual cost-of-living adjustment on pre-2015 benefits in January 2022). However, the Board will continue to evaluate the possibility of providing post-retirement conditional COLA for post-2015 pension benefits going forward. Any post-retirement conditional COLA granted would be provided in January of the given year.

The Board and Executive continue to monitor the health of the Plan and will determine each fall whether conditional increases for active and/or retired members can be provided.

WHAT'S THE DIFFERENCE?

Pre-retirement conditional upgrades

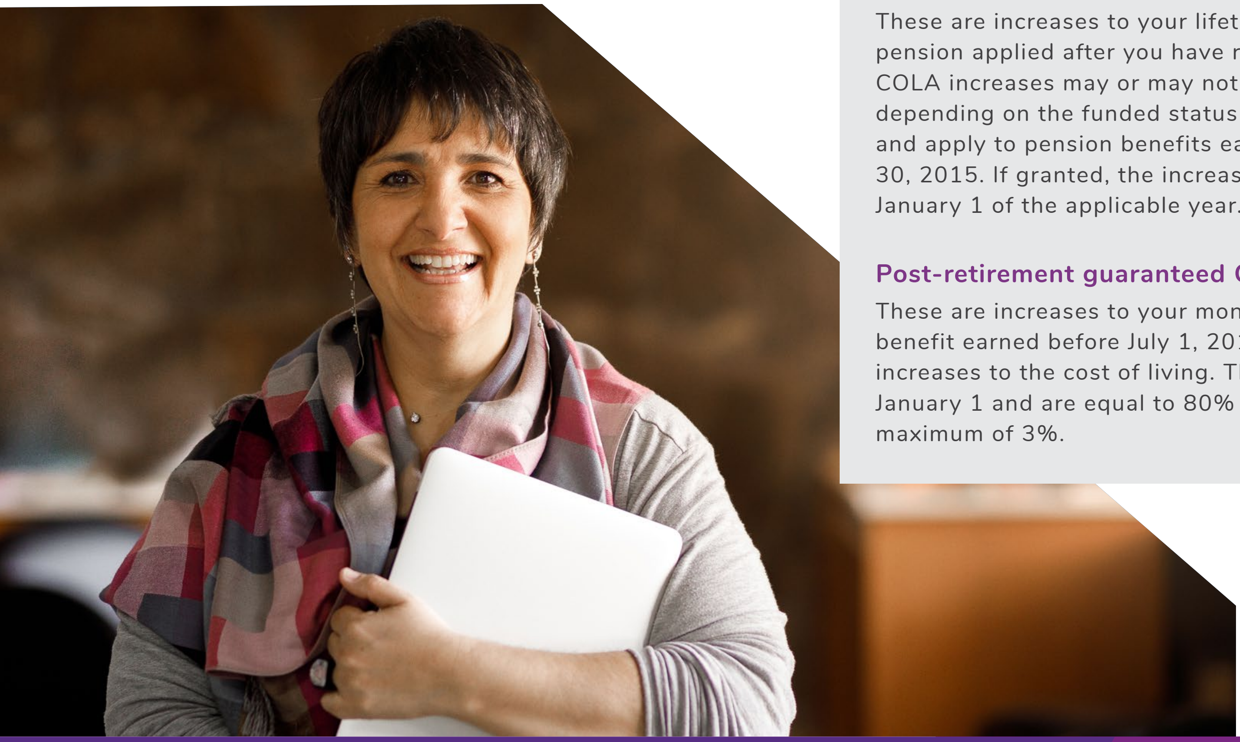
These are increases to your lifetime monthly pension applied before you retire. These upgrades may or may not be granted depending on the funded status of the Plan and may apply to either your pre-2015 lifetime pension or your post-2015 lifetime pension. If granted, the increase is applied on June 30 of the applicable year.

Post-retirement conditional COLA

These are increases to your lifetime monthly pension applied after you have retired. These COLA increases may or may not be granted depending on the funded status of the Plan and apply to pension benefits earned after June 30, 2015. If granted, the increase is applied on January 1 of the applicable year.

Post-retirement guaranteed COLA

These are increases to your monthly pension benefit earned before July 1, 2015, to account for increases to the cost of living. They occur each January 1 and are equal to 80% of inflation to a maximum of 3%.

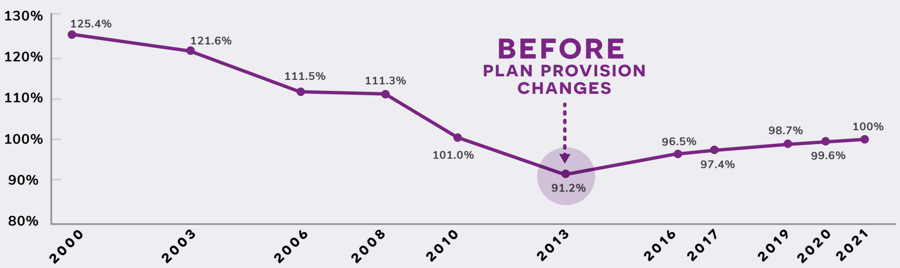


BENEFIT IMPROVEMENTS A SIGN NEW PLAN DESIGN IS WORKING

It has been seven years since significant design changes were made to the STRP to deal with a mounting deficit in Plan funding. Now, with the Plan reaching fully funded status and providing its first conditional upgrade since the changes were made, it's clear to see that those alterations are beginning to pay off.

The first decade of the new millennium was not kind to pension plans in Canada – the STRP included. The bursting of the tech bubble in 2001 and the financial crisis of 2008 had many pension plans facing funding deficits and re-evaluating whether or not they were going to be able to meet their pension obligations. Many plans abandoned the defined benefit model, opting instead for defined contribution plans that make no guarantees on future retirement income, and offer less employer risk. Others continued on with defined benefit models, which promise more benefits up front in the hope that they will be able to pay those benefits in the future.

STRP GOING-CONCERN FUNDED RATIO (2000-2021)



Since inception, the STRP was designed as a target benefit plan, which mirrors a defined benefit plan but with more flexibility around the promised benefits. Before 2015, the Plan had a final-average-earnings formula and included guaranteed cost-of-living allowances, two generous benefits that were becoming harder to confidently fund.

However, in 2015 the Plan went through major design changes to manage the growing deficit caused by the recession in 2008. The goal of those changes was to provide more flexibility in managing a riskier future – one where a more volatile investment landscape and longer life expectancies would be making it a lot more challenging for pension plans to fund their pension promises.

"Under the old design, the best tool we had to deal with fluctuations in our funding levels was to look at increasing contributions," said Troy Milnthorp, Senior Managing Director of Corporate Fund Services, STF. "But with the STRP, government contributions are negotiated at the bargaining table which makes for a lot less flexibility, and it ended up putting pressure on members to contribute more. It wasn't sustainable."

The result of the Plan changes was the innovative benefit members now earn on post-2015 teaching service. Rich benefits like the final-average-earnings formula and guaranteed cost-of-living adjustments were traded for lesser core benefits (a career-average-earnings formula with no guaranteed indexing) that are much more affordable in the long-term. But the new design also allowed for conditional increases to be applied to the earned benefits when the Plan is financially healthy. This way, the Plan would determine if it could afford the improvement before providing for it, instead of promising it up front and hoping to pay for it down the road. In the end members get a comparable benefit to what they would have had under the old design, with much less risk of the Plan being underfunded.

A TIMELINE OF CHANGES TO STRP

2000
Plan's funded status peaks at 125%

2013
Following the 2001 tech crash and the 2008 financial crisis, the Plan's funded status hits its lowest point at 91.2%.

2015
Changes are made to the Plan's design to provide smaller core benefits but with the promise of conditional increases when financially feasible. Provides Plan more flexibility to manage risk.

2018
Plan's funded status continues to improve. STF begins working with government to update regulations to make way for benefit improvements.

2021
Provincial government amends regulations that were keeping STRP from providing conditional improvements. Plan is fully funded.

2022
Conditional upgrade is granted to active members.

"The future will invariably reveal periods of economic difficulty," said Simon Deschênes, the STRP's actuary. "However, the Plan as designed is equipped to handle fluctuations because it only improves benefits in consideration of affordability."

But any innovation faces obstacles before it can be fully realized, and the new STRP design has been no different. While the Plan immediately began moving toward fully funded status following the changes in 2015, it had yet to be able to provide conditional increases to its members until this year. The main reason for that was ill-fitted pension regulations that barred the STRP from providing benefit improvements. The STF began working with the government to change the regulations in 2018, and finally saw them amended in 2021.

"The regulation amendments were key for us," said Milnthorp. "They've really enabled us to manage the Plan the way it was designed to work."

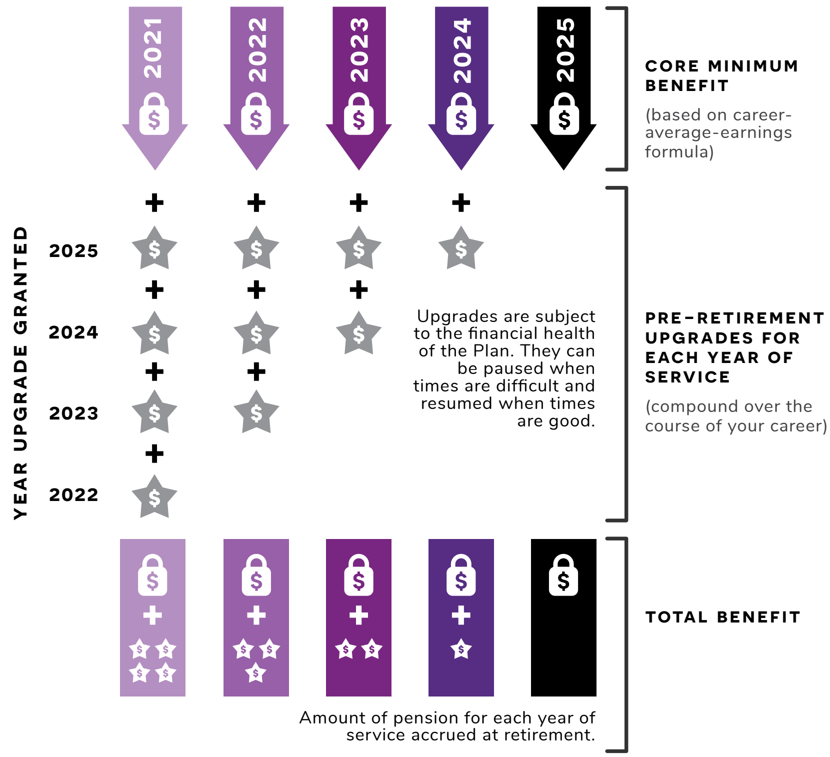
Now, with all the pieces in place to administer the Plan as it was designed, the future for the STRP is looking much brighter than it was seven years ago. With the deficit eliminated and regulations amended, the Plan was able to offer a conditional upgrade to active members this year. And the door remains open for more should the Plan continue to see positive financial results.

"This really is a different sort of plan that fits perfectly for teachers in Saskatchewan," said Milnthorp. "It's exciting to be part of it."

The Pension and Benefits Board of Directors will be evaluating the viability of further increases this fall.

UNDERSTANDING THE DESIGN OF THE POST-2015 STRP BENEFIT

The design of the post-2015 STRP benefit can be boiled down into a simple formula: core benefits + conditional increases = lifetime retirement income. The core benefits are the benefits you receive regardless of the funded status of the Plan. They are based on a career-average-earnings formula that considers the earnings and service you earn each year to determine the core portion of your future retirement income. Conditional increases are not guaranteed but are provided based on the financial health of the Plan. However, over time those increases will continue to compound. As a result, your pension grows in two ways: based on the earnings and service you have earned each year and based on the financial health of the Plan.



WHAT WOULD YOU LIKE TO SEE IN THE UPDATE?

Have suggestions for content in this newsletter?
Our communications guy wants to know! Send him a message at stfcommunications@stf.sk.ca.

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Need more information? Contact us at:

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