

RTAM BOARD RESPONSE to the SALE OCTOBER 2007 REPORT

EXECUTIVE SUMMARY

The RTAM Board report, dated January 24, 2008, consists of RTAM's detailed response, section by section, to the Sale October 2007 report. Because the report stated the recommendations "should be seen as a package", they were considered as a "package". Our report accompanies a letter, dated January 30, 2008, to Honourable Peter Bjornson.

Background

The Minister of Education, Citizenship and Youth has asked RTAM to provide written endorsement of the Sale report.

Response to the Minister's Request

- RTAM, through its Pension Committee, has reviewed the report, including consulting with professional advisors.

On the basis of this review, RTAM cannot endorse the "package" of recommendations, because they do not sufficiently address RTAM's concerns regarding the long-standing and complex COLA problem.

A fair resolution to the COLA problem for retired teachers means a long-term funding fix now and must include significant funding.

- When we examine the "package" of recommendations, we can support the recommendations for a change to the interest crediting method for the Pension Adjustment Account (PAA) to the "better of" method and the associated three-year moving average back-dated to 2005. It is a helpful piece in beginning to enhance the funding of the PAA.
- However, this proposed change is only one means of modest funding which may result in modest improvements in COLA payments. In the absence of more significant funding, it is a minimalist and piecemeal approach that is tinkering. More significant lump sum funding and/or a long-term funding plan to fix the COLA problem now are needed.

We are skeptical that this proposed change will result in a 2/3rds COLA. Our advisors caution us that a 2/3rds COLA is dependent on low inflation and very dependent on high investment returns. We believe it would be imprudent to put reliance on the expectation of high returns.

- We cannot accept that agreement on the "better of" method proposal "is conditional on agreement that for ten years COLAs be limited to no more than 2/3rds CPI...". This does not meet the test of fair and equitable treatment of retired teachers.
- We cannot support other recommendations related to addressing the COLA problem. They are inconsistent with our objectives for long-term funding solutions for current retired teachers.

RTAM has consistently stated that, when there are serious and meaningful discussions on long-term funding solutions and/or a plan for long-term funding, we are willing to discuss a reduction in COLA benefits.

RTAM Section by Section Response to the Report

- RTAM has provided detailed comment on each section of the report – Mandate, Background, Options for addressing COLA issues and Recommendations.

- RTAM has commented on the report's recognition in the mandate section of "the priority of fully funding Account A", as it relates to the interests of the current retirees and to RTAM positions. RTAM takes strong exception to this statement, as it is unfair to the current generations of retired teachers.
- The background section addresses several issues, which RTAM believes require response. These include RTAM addressing the premises of the report and the misstatements regarding RTAM positions and statements about the COLA problem.
- RTAM believes that the report does not deal with the multitude of options available to address the COLA problem.

RTAM Response to the Recommendations

- RTAM has made detailed comments on all recommendations.
- RTAM **can support** the following recommendations as helpful in addressing the COLA problem:
 - Recommendation #5:
A change in the interest crediting method for the PAA to the "better of" method, and the associated three-year moving average backdated to 2005.
- RTAM **cannot support** the following recommendations, as they do not address RTAM's objectives for long-term funding solutions and fair and equitable treatment of retired teachers:
 - Recommendation #3:
A maximum 2/3rds CPI COLA and an inflation ceiling cap of 8%.
 - Recommendations #4 and #6:
The creation and the funding of a reserve account in the PAA.
 - Recommendations #3, #5 and #6:
The ten year duration
- We have also commented on recommendations #2, #7 and #8.
 - With respect to #2, a delay in consideration of a contribution increase to address the contribution shortfall of actives, but especially of new entrants, makes the funding recommendations too narrow in scope.

RTAM believes that the recommendations exhibit a bias toward the priority position and efforts of MTS and, in contrast, do not recognize RTAM's priority concern that more significant funding solutions be considered.

We paid for inflation protection. The inadequate funding recommendations are tantamount to asking the generations of current retired teachers to bear the brunt of the structural under funding of the PAA and the inaction for years, despite actuarial warnings, by the two parties responsible – the Government and MTS.

RTAM Proposals

For fairness and equity for retired teachers, RTAM has made two proposals - 1) the immediate implementation of the "better of" method and the three-year moving average backdated to 2005, without conditions attached; and 2) a written commitment be provided to continue discussions regarding long-term solutions and/or a plan for long-term funding. RTAM has outlined some positions regarding long-term funding solutions.

Once you have completed your review of our report, we would be pleased to meet to discuss our response in detail.