

JULY 2011 COLA REPORT

INFORMATION UPDATE

A. JULY 1, 2011 COLA

1. COLA Grant Analysis

The TRAF cost of living adjustment (COLA), effective July 1, 2011, is 0.98 %. The increase in the consumer price index (CPI) for Canada for December, 2010 over December, 2009 was 2.35%. Therefore, inflation protection provided by the TRAF COLA is 41.7% of CPI.

- **Cost of living adjustment (COLA)** - **0.98%**
- **Consumer Price Index (CPI)** - **2.35%**
- **% of CPI** - **41.7%**
- **Maximum 2/3 COLA** - **1.57%**
- **No 2/3 COLA**
- **No surplus “reserve” in the COLA account**

2. Examples of Dollar Increases (pre-tax) in COLA

<u>Basic Pension \$</u>	<u>COLA %</u>	<u>Annual Increase \$</u>	<u>Monthly Increase \$</u>
\$ 10,000	x 0.98%	\$ 98.00	\$ 8.17
15,000		147.00	12.25
20,000		196.00	16.33
25,000		245.00	20.42
30,000		294.00	24.50
35,000		343.00	28.58
40,000		392.00	32.67
Average base pension (approximate)			
\$ 25,500	x 0.98%	\$250.00	\$20.83

B. TRAF Cost-of-Living Adjustment (COLA): Bill 45 Aftermath

1. Bill 45 did not fix the COLA problem. The COLA problem is still with us.

The Bill 45 change in the method of interest crediting to the Pension Adjustment Account (PAA) was helpful, but only a modest funding measure resulting in only modest improvements in COLA. It was mere tinkering.

a. To illustrate this, here are the COLA results since the implementation of Bill 45.

COLA Results

	COLA	CPI	% of CPI	2/3 of CPI =	Max 2/3	Reserve
July 2008	1.44%	2.4%	60.0%	1.60%	No	No
	1.33%*					
July 2009	0.37%	1.2%	30.8%	0.80%	No	No
July 2010	0.80%	1.3%	60.6%	0.88%	No	No
July 2011	0.98%	2.35%	41.7%	1.57%	No	No

*COLA resulting from Bill 45 provisions.

- In aggregate Bill 45 has resulted in an improved COLA, albeit very modest.
- However, even in a period of relatively low inflation, the PAA, which finances COLAs, so far has not been able to finance the Bill 45 reduced maximum COLA of 2/3rds of CPI.
- Mr. Sale told the RTAM Board that his recommendations would result in a 2/3rds COLA in the first three years of the ten-year deal. Mr. Sale’s prognostications were wrong. RTAM, based on consultation with professional advisors, expressed strong skepticism about the Sale predictions. No such results have occurred in the first three years and the pattern has continued into the fourth year of the deal.

b. To illustrate this, as well, here are the projections for COLA.

COLA Projections (TRAF PAA Projection Valuation Report as at January 1, 2009)

A **0.8%** COLA approximately, on average annually, is the future COLA estimated by the Actuary for the next 20 years, under the current PAA structure and assumptions. (0.5% - 1.0% range)

- The Actuary points out that under all scenarios projected the estimated COLA is less than the Bill 45 provision for a maximum 2/3rds COLA and inflation ceiling cap of 5.33% CPI. 2/3 of the Actuary’s 2% inflation assumption = 1.33%. For all scenarios, estimates were on average 1% or less.

2. Effect of 2% Contribution Rate Increase

The increase will be phased in at one-half per cent each year from September 2012 until September 2015. When fully implemented, the additional future COLA is estimated to be **0.2%**, resulting in an approximately **1.0%** COLA on average annually.

3. Purchasing Power

With the pattern of less than 100% CPI COLA grants since 1999, the purchasing power of retired teachers has since diminished by 13%. With the 0.8%/1.0% future COLA projections, we anticipate the purchasing power “hole” of retirees will continue to deepen.