TEACHERS' PENSION PLAN ONTARIO

Pension News

INFORMATION FOR RETIRED TEACHERS AND THEIR SURVIVORS SUMMER 2010

Get ready for re-employment changes

Every month, Rita and George Boustany enjoy meeting up with their retired friends who also taught for the Toronto Catholic District School Board. Their conversations often vary: travel stories, the grandkids' latest accomplishments, and the latest local news.

In May, the hot topic was re-employment plan changes.

Making it official

Like many of their friends and former colleagues, Rita and George had heard over the past year that changes to the re-employment provisions were forthcoming. In early May, the pension plan sponsors, the Ontario Teachers' Federation (OTF) and the Ontario government, announced new and updated working after retirement rules.

Part 1: Clearer definition of "re-employed pensioner"

The first of the three changes will occur on Sept. 1, 2010. It will help provide clarity on what it means to be a re-employed pensioner.

Under current plan language, "re-employed pensioner" doesn't include any reference to compensation nor does it specify conditions of employment. The new plan language will make it clear and eliminate uncertainty: if you provide any services for compensation after retirement for an employer who participates in the pension plan, you will be considered a re-employed pensioner and subject to re-employment rules.

This new definition will apply whether you are employed, self-employed or hired through a third party. It's also important to note that you can't forfeit your pay to circumvent the rules. If the position or duty entitles you to compensation and you decide to decline it, your service will still be counted towards the re-employment limits.

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Get ready for re-employment changes

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Part 2: New 50-day limit; employers to report re-employment service

Beginning Sept. 1, 2012, you will be able to work in education without affecting your Teachers' pension for up to 50 days in each school year you work following retirement. This single-tier limit means you'll only have one number to worry about if you become re-employed in education after retirement.

Under current limits, you can work in education without affecting your Teachers' pension for up to 95 days in each of the first three school years in which you return to work. After that, you can work 20 days each school year.

The final plan change is an administrative one. Beginning in the 2012/13 school year, your employer will be required to report re-employment service. Your responsibilities remain the same: track your days and contact us if you exceed the new re-employment limit of 50 days.

Summary

- Expanded definition of re-employed pensioner (Sept. 1, 2010).
- Single-tier limit of 50 days (Sept. 1, 2012).
- Employers to report re-employment service (Sept. 1, 2012).

The Ontario Teachers' Federation and the Ontario government are the plan's co-sponsors. They are jointly responsible for setting plan benefits and contribution levels. Any changes to re-employment rules and regulations must be negotiated by the co-sponsors.

Three pensioners, same rule

New 50-day limit in effect Sept. 1, 2012

		04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
 RETIRED 2010	Salim has just retired. He is allowed to work 95 days per school year until the 2012/13 school year, at which time he will be allowed to work 50 days per school year.						Retired	95	95	50	50
 RETIRED 2008	Currently, Gloria has used up one of the three 95-day re-employment years she has been allotted. By the time the 2012/13 school year rolls around, she will have used all three 95-day years. From that point on, Gloria can work 50 days per school year.				Retired	95		95	95	50	50
 RETIRED 2005	Lidia has already worked for 95 days in three separate school years. She can currently work 20 days per school year. Come Sept. 1, 2012, she will be able to work 50 days per school year.	Retired		95	95	95	20		20	50	50

Pensioners ask us about re-employment

Re-employment is always a hot topic for pensioners. The questions and answers below are a sampling of the most common ones we receive. As always, we encourage you to contact us directly if there is ever any doubt about your personal situation.

Q. I retired this June and was planning to return to work in the school years immediately following my retirement. Does this mean I lose a year to work up to 95 days?

A. Yes, but you will be able to work longer than 20 days for re-employment service beyond three years without affecting your pension. With the new rules becoming effective Sept. 1, 2012, you will only be able to return to work for 50 days in your third year (2012/13 school year). Beyond that, your limit increases to 50 days from 20.

Q. Can I work for 95 days up to Dec. 31, 2012, or does my ability to do so expire on Sept. 1?

A. Re-employment days are counted on a school-year basis. Therefore, if you are within your first three years of re-employment, the 95-day provisions expire on Aug. 31, 2012. You will have up to 50 days to work after retirement from Sept. 1, 2012 to Aug. 31, 2013 without affecting your pension.

Q. Do I have to do anything differently once the new rules become effective?

A. No. If you provide services for an employer that participates in the Teachers' pension plan, your responsibilities will remain the same as they are today:

- Let your employer know you are collecting a pension when you accept a job.
- Track the number of days you work.
- If you work after the month in which you exceed the limit, notify us. We will suspend your pension for as long as you work, even if you work for only part of a day.

Q. I do part-time consulting work for a third party that is hired by a board of education. Do the re-employment rules now apply, even though I don't do any teaching?

A. Yes. Under the new rules effective Sept. 1, 2010, the expanded definition of "re-employed pensioner" will now include all re-employment, teaching or non-teaching, whether done on an employment, self-employment or third-party basis.

Q. From time to time, I mark papers for EQAO. Is this work now subject to the re-employment rules?

A. Yes. EQAO is an agency of the Ministry of Education, which is a participating employer in the plan. Therefore, your work will count toward the re-employment limit beginning Sept. 1, 2010. If you already have a contract that extends into the new school year and beyond, contact us for additional information.

Q. I have done some administrative work for my former school under a personal services contract since I retired two years ago and plan to continue this arrangement. Do the new rules affect me?

A. Yes, all services provided will be subject to re-employment rules as of Sept. 1, 2010.

Re-employment rules have typically only applied to these types of work arrangements where they involved teaching. The expanded definition of "re-employed pensioner" will now include all re-employment, teaching or non-teaching, whether done on an employment, self-employment or third-party basis.

In your case, you will start to count re-employment and have a 95-day limit as of Sept. 1, 2010. Effective Sept. 1, 2012, you will have a 50-day limit.

Q. What kind of work counts toward the limit?

A. Any services provided for which pensioners are entitled to compensation counts toward the limit. If you work as a volunteer and the position or duty is normally compensated, you and your employer can't forgo payment to circumvent re-employment rules.

Q. What should I do if I have questions?

A. Call us if you are unsure about the rules. Our Pension Benefits Specialists are available at 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m. ■

Teachers' blazes direct investment trail

Teachers' investment program is designed to earn the income needed to pay future pensions 70 or more years from now. We look for the best new opportunities to earn the required investment returns, at an appropriate level of risk. The fund holds stocks and bonds, of course, but it also takes direct ownership stakes in real estate, infrastructure and private companies.

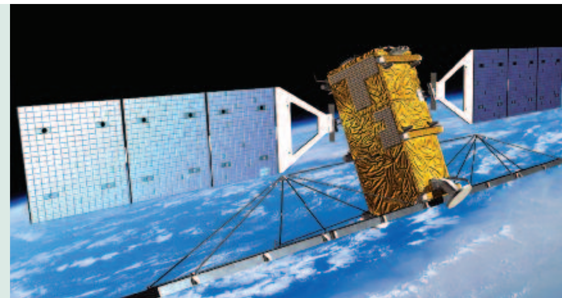
Because the fund is large and has about 200 experienced investment professionals, we have the ability to be direct investors. We can own companies — in whole or in part — directly, rather than invest through public markets or intermediaries such as investment funds. We make these investments after we have carefully analyzed a wide range of global opportunities in-house. We often partner with strong management teams that are experts in their industries.

Why take this approach?

We feel our employees can find and manage investment opportunities just as successfully as external managers — at a fraction of the cost. Direct investments help to diversify the fund's risk and returns, because returns from direct investments typically do not move in tandem with traditional stock and bond markets (which can swing dramatically).

We have been building this in-house market and industry expertise for nearly 20 years, starting with private companies, and it is paying considerable dividends. Other pension plans are now starting to emulate our example.

At the end of 2009, our direct investments represented nearly one-third of our total holdings. We hold direct investments in public equities, private companies, real estate and infrastructure. ■



	Public equities
At a glance	Some parts of this department provide financial support that can be a catalyst for companies. For example, the Relationship Investing group takes large stakes in companies, sometimes before they become public, and works with them to increase shareholder value. The Long-Term Equities group aims to be a long-term owner of companies with steady cash flow.
Significant investments	• Brazilian oil and gas exploration company OGX Petróleo e Gás Participações S.A.; • MacDonald, Dettwiler & Associates, a Canadian company specializing in information products and systems.
Recent developments	Brazilian public equities holdings did particularly well in 2009. Brazil's main stock market index, Bovespa, rose 83 per cent in 2009 while our own S&P/TSX Composite Index gained 31 per cent. And the Brazilian stocks that we own, such as OGX and port terminal company LLX Logistica S.A., rose even more than their home country index last year. This, coupled with the fact that we were able to buy stocks in Brazil that offered better value when compared to similar stocks in Canada, has resulted in greater growth. Why Brazil? It is rich in resources; it has grown to become the world's 10th largest economy; its fiscal affairs are healthy; and we have found good investment partners there.

Teachers' Private Capital

This department makes direct private equity investments that are managed in-house, and also commits some of the fund's money to select private equity funds managed by outside experts in markets that are difficult to access. Teachers' Private Capital investment managers look at potential investments in four major industry sectors: telecom, media and technology, consumer and retail, diversified industries and financial services.

- Aquilex Holdings, LLC, which provides maintenance and repair services to the energy industry;
- Maple Leaf Sports & Entertainment Ltd., owner of the Air Canada Centre, Toronto Maple Leafs, the Raptors, BMO Field and Toronto FC;
- health and wellness retailer GNC Corporation, Inc.;
- Canada Guaranty Mortgage Insurance Co., acquired in January this year.

Teachers' Private Capital has been busy wrapping up several investment deals in 2010. This team bought stakes in the world's largest specialty aluminum container maker, Exal Group, and in Munchkin, Inc., a private U.S.-based maker of infant and toddler products.

Real estate

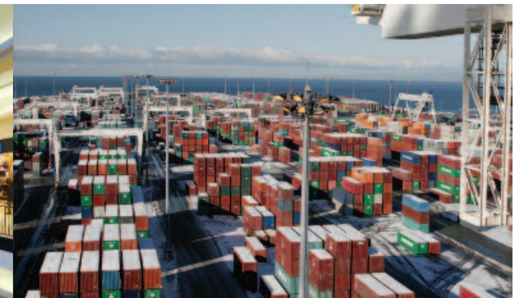
Our wholly owned subsidiary, The Cadillac Fairview Corporation Ltd., invests in and manages real estate on behalf of the plan. It focuses on premium shopping malls and office buildings in Canada and the U.S. It also has real estate investments in Brazil and Britain.

Commercial real estate assets are steady earners and they act as a partial hedge against inflation (since leases generally go up in line with inflation).

- Toronto Eaton Centre retail and office complex;
- Toronto-Dominion Centre office complex;
- Pacific Centre retail and office complex in Vancouver.

Cadillac Fairview opened the 1.2-million-square-foot RBC Centre in downtown Toronto in 2009, noteworthy for its high environmental standards.

The Shops at Don Mills, one of the largest redevelopment projects in Canada, opened in April 2009. Its 'urban village' concept combines stores, restaurants and public spaces in an outdoor setting.



Infrastructure

We make direct investments in infrastructure assets such as water and gas utilities, airports, power systems and marine container terminals. These kinds of assets typically generate stable, long-term returns that mirror inflation and come with low risk. They're often in regulated industries.

- GCT Global Container Terminals Inc., which owns four North American marine container terminals;
- power generation company InterGen N.V.;
- Scotia Gas Networks PLC, Britain's second-largest gas distribution company.

In 2009, Teachers' Infrastructure group completed a deal to increase its stake in Bristol Airport, Britain's ninth-busiest airport.

Teachers' fund posts significant returns for 2009… but funding challenges persist

In the recent *Report to Members*, we outlined how the pension plan's assets rebounded in 2009 with earnings of $10.9 billion and a rate of return of 13 per cent — exceeding the fund's benchmark by four per cent. At the same time that the plan was buoyed by positive earnings, it reported a preliminary $17.1 billion funding shortfall.

"While we earned nearly $11 billion last year, that total was outweighed by the impact of higher projected pension costs," said Jim Leech, Teachers' President and CEO. "That is the simultaneous, double-barreled 'strong earnings-but-recurring shortfall' phenomenon that preoccupied all of us in 2009."

Explaining the perceived paradox

How can this be explained? There are many pieces to the funding puzzle, including interest rates and smoothing.

The plan is very sensitive to interest rate changes because pension costs rise when interest rates fall, as more money must be set aside today to cover the projected cost of future pensions. Real interest rates (interest rates after inflation) were at 2.1 per cent at the start of 2009, and declined to 1.5 per cent by the end of the year. This seemingly small shift had a huge impact. Each one per cent change in the real rate has more than a $25 billion impact on the projected cost of future pensions. As a result, approximately $15 billion of the $17.1 billion shortfall is due to declining long-term real interest rates.

A second factor contributing to the 2010 shortfall is the continued "smoothing" of the 2008 losses. Pension plans invest and pay benefits over many decades. That is why Teachers', like other pension funds, spreads out some investment results over five-year periods. The plan literally smoothes out the high peaks and low valleys of investment returns to reduce volatility in the plan's funding position and the subsequent benefit and contribution rate changes that would result. In each of the 2009 and 2010 valuations, we recognized over $5 billion in losses from the 2008 economic downturn.

Next steps

If a shortfall persists, the plan's sponsors, the Ontario Teachers' Federation (OTF) and the Ontario government, must take steps to eliminate it before the next funding valuation is filed with the provincial pension regulator. The next valuation must be filed in 2012, but the sponsors could choose to file earlier. To address a funding shortfall, they can:

- increase working teachers' contribution rates;
- invoke conditional inflation protection for pension credit earned after 2009;
- change other benefits members will earn in future years; or
- use a combination of these options. ■

It's important to remember that your pension and the value of pensions already earned by working members are protected by current legislation.

Teachers' brings home straight "A" report card

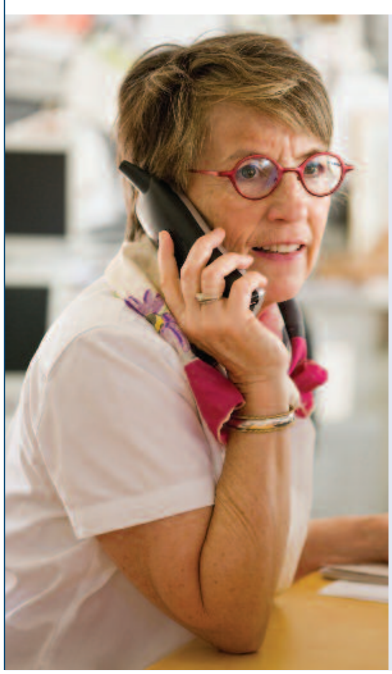
Teachers' has once again earned top marks for service in 2009. We were pleased to receive a member satisfaction score of 9.1 out of a possible 10, our highest standing since 2005. Members also awarded us with a rating of 9.0 or higher in all four quarters of the year, an accomplishment that makes all of the employees at Teachers' particularly proud.

"It's a continuing challenge to maintain and improve upon our high standard of service, but we are very pleased to have received a rating of 9.0 or higher consistently throughout the year," said Michael McAllister, Director, Client Services. "Having this information provides valuable feedback we use to evaluate our performance, pave the way for improvements and reward employees. We're so appreciative to members for taking the time to evaluate how we're doing."

We hire an independent research firm to conduct client satisfaction research on our behalf. They measure members' satisfaction with Teachers' personal services and communications by conducting hundreds of phone calls every quarter. Approximately 2,100 member surveys are completed each year.

The research measures seven key performance indicators and tracks them on a quarterly basis. The scores are based on three main components: personal service, which accounts for 60 per cent of the total score; general service, 25 per cent; and communication, 15 per cent. The numbers are averaged to obtain an annual score.

"No matter what the score we receive, we recognize there is always room for improvement. This year we are introducing several new enhancements that will give members a richer and more rewarding experience," said Michael. "We hope that greater proactive communication with an enhanced focus on counseling and customization will provide members with the type of service they want to receive throughout their retirement." ■



We measure client satisfaction through a third-party research firm. They contact members to gauge satisfaction when they've received service from Teachers'. If you have

- called in to talk to one of our Pension Benefits Specialists
- interacted with *i*Access Web, the secure member website
- sent us an e-mail
- received an e-mail regarding the latest *Pension News* or
- received a paper version of *Pension News* in the mail

…you may be among the thousands of members who have been or will be contacted for feedback. Each survey is completely optional and takes about five minutes to complete.

News briefs

Update your profile to win a $100 gift card

Whether you want to change your telephone number or enter a new e-mail address, your My Profile page is available for you to update at any time on *i*Access Web, the secure member website. If you change your personal information before Dec. 31, 2010, your name will be entered to win one of five $100 Cadillac Fairview shop! gift cards.

"It's important to keep your profile up to date," said Michael McAllister, Director, Client Services at Teachers'. "If your personal information is accurate, we can let you know about important pension updates as quickly as possible."

If you haven't registered for *i*Access Web, consider signing up by calling 416-226-2700 or 1-800-668-0105. You can also complete the registration form at www.otpp.com.

Winners will be selected by random draw and contacted by telephone. One entry per person.

Teachers' opposed to Magna transaction

Teachers' strongly opposed a Magna International transaction to eliminate the company's multiple-voting shares with cash and single-voting shares valued at $863 million (U.S.) for the Stronach Trust.

"We support the principle of one share, one vote; however, we do not support transferring a massive amount of wealth to a controlling shareholder to get rid of multiple-voting shares," said Wayne Kozun, Senior Vice-President, Public Equities.

Teachers' participated in an Ontario Securities Commission (OSC) hearing on the transaction in June. The OSC ruled that Magna must provide better information to shareholders before holding a vote on the transaction.

"We have 289,000 reasons to be vigilant on corporate governance issues," said Jim Leech, President and CEO. "We are glad to see the OSC enforce strong standards when corporate boards fail to do so."

New Cadillac Fairview CEO announced

Teachers' wholly owned subsidiary, Cadillac Fairview, announced that John Sullivan, the company's Executive Vice-President, will succeed Peter Sharpe as CEO, effective Jan. 1, 2011. Mr. Sharpe will retire after 26 years of service, the past 10 as CEO. "Peter has played an invaluable role in Cadillac Fairview's success and its important contribution to Teachers' asset base," said Neil Petroff, Teachers' Executive Vice-President, Investments, and CIO.

Pension News

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