TEACHERS' PENSION PLAN ONTARIO

RRSP planning for next year • Investment news • Online service

pensionwise™

A Newsletter from the Ontario Teachers' Pension Plan • **November 2002 • Issue 3**

INSIDE THIS ISSUE

When he's not contemplating his future, TORSTEN MANAHAN teaches in Toronto.

Considering leaving early?

Early retirement is not for everyone, but if you're interested, here's what you need to know

David Olds (not his real name) has taught elementary school in Barrie for the past 8 years. The 31-year-old father of two loves his chosen career, but he is still planning to retire with a reduced pension at age 50.

"I may travel, or supply teach. I haven't decided yet. I want to keep my options open," says David.

The money he received from the sale of inherited family property has provided a boost to his planning, but he is also making maximum contributions to his RRSPs and to his children's Registered Education Savings Plans, and plans to be free of a mortgage when he retires.

Despite his sound financial preparations, David understands that the foundation of his early retirement plan is his reduced teachers' pension.

YOUR REDUCED TEACHERS' PENSION

Since June 30, 2001, teachers have been eligible to retire with a reduced pension as early as age 50. Prior to the recent rule change, teachers had to be at least 55.

To collect your pension earlier, we reduce it by 5 percent per year that you're away from your 85 factor or age 65, whichever comes first.

WHY THE REDUCTION?

David will be eligible to retire with an unreduced pension at age 54, but he wishes to retire at age 50. This means David will collect his pension four years sooner.

The reduction adjusts for time and interest rates so that the total David collects from the pension plan works out to be the same, no matter when he retires.

ESTIMATE YOUR REDUCED PENSION
(Based on an average salary of $65,000)

	Age							
Credit	50	51	52	53	54	55	56	57
20	16,250	16,900	17,550	18,200	18,850	19,500	20,150	20,800
21	17,745	18,428	19,110	19,793	20,475	21,158	21,840	22,523
22	19,305	20,020	20,735	21,450	22,165	22,880	23,595	24,310
23	20,930	21,678	22,425	23,173	23,920	24,668	25,415	26,163
24	22,620	23,400	24,180	24,960	25,740	26,520	27,300	28,080
25	24,375	25,188	26,000	26,813	27,625	28,438	29,250	30,063
26	26,195	27,040	27,885	28,730	29,575	30,420	31,265	32,110
27	28,080	28,958	29,835	30,713	31,590	32,468	33,345	34,223

Assumptions: an immediate pension (5% reduction per year from earliest unreduced pension); credit and qualifying service are equal; survivor pension of 50%. Excludes: CPP reduction, 10-year pension guarantee, income tax deduction, medical deductions.

PHOTOGRAPHY: EDEN ROBBINS

How much will you need in retirement? The amount of income "rests on the notion that, despite dreams of jetting around the world, retirees tend to maintain the values, habits and leisure activities they developed while working." **The Pension Puzzle**

HOW THE REDUCTION WORKS

We calculate your standard pension and then apply an early retirement reduction. Let's say David's average best-five years' salary is $65,000. At age 50 and with 27 years of credit, David's standard pension is $35,100 per year.*

David wants to retire four years early, so a reduction of 20 percent is applied to his entitlement (5% x 4 years = 20%). This means David will collect 80 percent of his standard pension, or $28,080 per year.

Torsten Manahan doesn't plan to retire early, but wants to retire as soon as he's eligible. "An easy way to do this is to buyback credit for an absence. This saves you from having to extend your career to make up the time," advises Torsten.

CAN YOU AFFORD TO RETIRE AS EARLY AS 50?

We can't answer this question for you, but if you're thinking about early retirement you may want to do your homework.

This is by no means a complete list, but these three sources are worth checking out.

• *www.iemoney.com*†
IE: Money magazine posts past articles on their Web site. You may find the three-part series on early retirement useful.

• *www.moneysense.ca*†
Money Sense is another magazine. You may find the case studies under the section, Life Planning and Retirement interesting. Try the "tools" or calculators.

• *The Pension Puzzle: Your Complete Guide to Government Benefits, RRSPs and Employer Plans,* by Bruce Cohen and Brian Fitzgerald, published by John Wiley and Sons, 2002, $24.95. It's well written and provides a clear explanation of pensions.

Here's a sample of the early retirement advice we found in these sources:

• Buyback pension credit for absences such as maternity and parental leaves.
• Live frugally. Learn to live on a lot less than you're being paid. However, planning to retire early should not come by sacrificing lifestyle today.
• Keep your fixed costs low. Once your mortgage is clear, resist the temptation to upgrade. If possible, live in a neighborhood with access to public transit or find other ways to reduce your reliance on your car.
• Plan early and consider putting money into RRSPs and RESPs.
• Seek out people who plan to retire early to serve as models and advisors.

If you have a favorite Web site or book dealing with retirement planning that you would recommend, send us an e-mail at *jcappelletti@otpp.com*. We'll compile a list of some of the more notable suggestions and print it in a future issue of *Pensionwise*.™

POINTERS FROM RETIRED TEACHERS

Even if you're not planning to retire early, you may want to note these tips. We asked retired teachers for their best advice about preparing for retirement. We received over 400 e-mails. Here's a summary of their suggestions:

Know the costs Compile an accurate assessment of your living expenses so you know how much money you'll need. Jim, 69 had this suggestion: "Determine what your approximate monthly pension will be and then live on that for a few months prior to retirement." Others also reminded teachers to be prepared to pay for medical and dental premiums.

Pay off your debt Before you retire, many pensioners suggested that you have your mortgage paid off, make necessary major repairs to your home and purchase major appliances or a vehicle and pay for them before you retire. Some also suggested you make good use of your dental benefits while you're working.

Have a plan "Whenever friends ask about retirement I always offer the same advice: Set personal goals to avoid withering on the vine," writes Mel.

Give yourself a break Retired teachers were also fairly consistent with their advice that if you're not sure what you want to be doing after retirement, give yourself time to decide. Don't commit to employment or volunteer work until you're ready.

Treat retirement like a career change "If you are considering seeking other employment," writes Brian, a retired superintendent, "you are probably best to apply before you retire."

You can read a selection of the tips from retired teachers and what teachers are doing to prepare for retirement on our Web site at *www.otpp.com.* ■

Be sure to read about the one-time reduction to your RRSP room beginning 2003 on page 8

* 2% pension factor x 27 years of credit x $65,000 = $35,100.

† These sites are provided for your convenience. We do not control these sites and therefore do not necessarily approve their contents.

We've not sat idly by waiting for better days

In last spring's *Report to Members* Claude Lamoureux, President and CEO, talked about market volatility, negative equity returns, and deepening investor uncertainty.

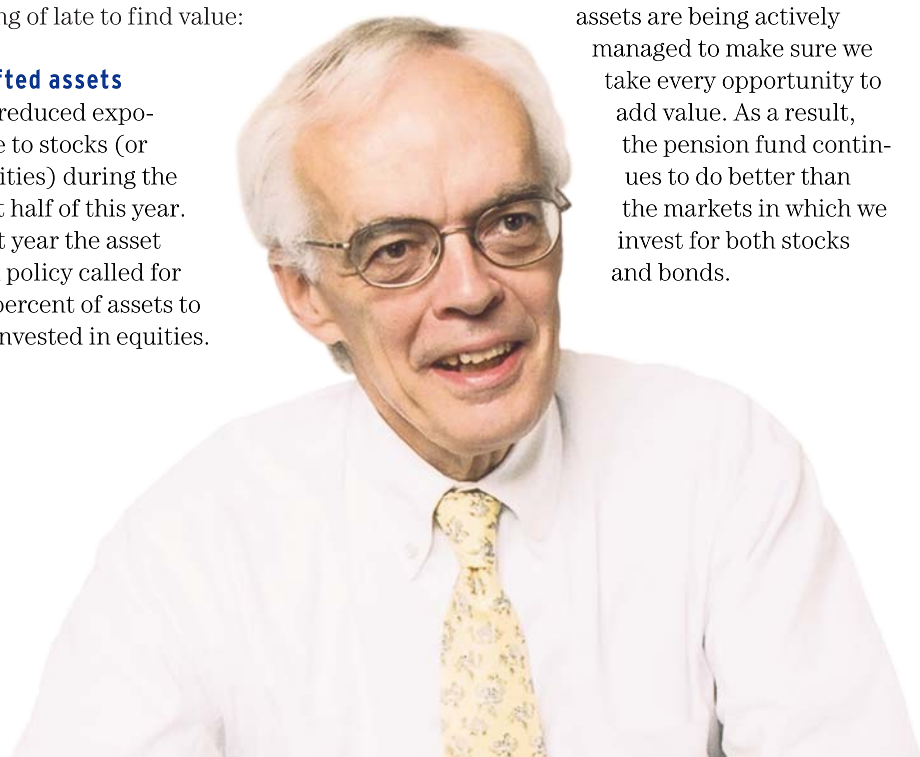
Claude said that the high returns of the 1990s were well behind us and that achieving an average return high enough to fund the plan's benefits would be a real challenge. That grim outlook has certainly come true.

"However, we have not sat idly by waiting for better days. As an alert and innovative investor, we have acted decisively to find value despite the dismal markets," says Claude.

This is what we've been doing of late to find value:

Shifted assets

We reduced exposure to stocks (or equities) during the first half of this year. Last year the asset mix policy called for 60 percent of assets to be invested in equities.



This year, that policy weight was cut to 50 percent. During the first six months of 2002 we moved more than $6 billion out of equities into fixed-income securities and cash.

Fixed income securities (or bonds) now represent 20 percent of the asset mix policy, double the allocation at the end of last year.

More active management

As much as 50 percent of all assets are being actively managed to make sure we take every opportunity to add value. As a result, the pension fund continues to do better than the markets in which we invest for both stocks and bonds.

We have also taken a more active stance on foreign currency management. This action has helped to add about $200 million in value in the first half of this year.

Real estate refreshed

The $11.4 billion real estate portfolio has been refined. This year, we have sold $300 million in properties that did not fit our strategy.

Infrastructure investments continue

We have expanded into assets that are an attractive alternative to public markets and offer the prospect of stable and positive long-term returns. Like real estate, these alternative investments are tangible assets. During the past 12 months, about $3 billion has been invested in electrical utilities, highways, airports and timberlands.

MID-YEAR RETURNS NEGATIVE BUT BEATING MARKET

In the first six months of this year, our rate of return was -1.1 percent, compared with -3.4 percent for the total fund benchmark.

World equity markets continued to decline on a year-to-date basis (as at June 30, 2002): Standard and Poor's (S&P) 500 (U.S.) was -17 percent, Canadian markets were -6.3 percent, Europe, Australia and Far East (EAFE) markets -8.1 percent. These declines have been partially offset by fixed income markets that have earned 1.7 percent returns for nominal bonds year-to-date and 8.7 percent for real-return bonds which are linked to inflation.

Overall, we are going through the worst markets in three decades. This is the third consecutive year of decline — something that happened only twice in the S&P index in the 20th century.

"As you hear all the doom and gloom surrounding investing today," advises Claude, "please bear in mind that your pension plan is continuing to work hard to maximize returns in these difficult markets and ensure payment of pensions today and in the future."

For more information, go to our Web site, *www.otpp.com* and look in the "Highlights" box for the investment update. You'll also want to read about our latest investments making news, such as our investment in the Yellow Pages directories. This $3 billion deal is the largest private equity buyout in Canadian history. ■

FOCUS GROUP RESULTS

Great service, but few aware of our Web site

The results of this year's focus groups were encouraging. Teachers told us they are pleased with the service they receive, and they find the topics presented in *Pensionwise*™ to be relevant, the articles well written and the format easy to read.

We also learned that few teachers had visited our Web site or were aware they could receive this newsletter electronically. To visit our Web site and to register for your electronic copies, go to *www.otpp.com.*

This year's focus group sessions were held in Guelph and Toronto in August. Thank you to those who participated. ■

You asked us

"... What is the plan doing to serve as a watchdog for our investments?" J.W.

We have long been an activist for the interests of shareholders because we preserve share value to pay pensions. (See *Pensionwise*™, May 2002, Issue 2; or visit the Web site *www.otpp.com* and go to the "Newsroom" in the pull-down menu.)

More recently, we have been instrumental in the creation of the Canadian Coalition for Good Governance. The Coalition includes Canada's largest pension funds, mutual funds and money managers.

"It's time to get beyond the rhetoric and work with those boards that do not represent the owners of corporations so that they listen to the expectations of those who actually own the companies they govern. As large investors, we have the resources to press for good governance, and smaller investors should benefit from our efforts. Our goal is to align the interests of boards and management with those of the shareholders like ourselves," says Claude Lamoureux.

Among other initiatives, members of the Coalition will:

- Review the composition and performance of boards
- Insist that key board committees have a majority of independent outside directors
- Share comments on the qualifications of audit committee members
- Support compensation schemes that reward employees for sustained performances
- Develop a common position on acceptable accounting standards and financial disclosure
- Work with securities commissions to strengthen regulations and with governments to strengthen criminal penalties.

The Coalition, which has 22 members, was created at the end of June and met again in September and October.

"Teachers' has a stellar reputation for its investment savvy. Can I get a list of the companies you invest in?" L.F.

Each year we publish a select group of companies (top 50 investments) in the *Report to Members.* You can find a comprehensive list on our Web site under "Investments" in the pull-down menu.

A word of caution: Our liabilities, asset mix and timelines may be significantly different than yours. Emulating our investment strategy is likely not the best strategy for you.

Claude Lamoureux has often recommended the book, *Winning the Loser's Game* by Charles D. Ellis (McGraw-Hill, $39.95). This readable classic, which is now in its fourth edition, explains how investors can avoid typical mistakes. ■

E-mail your questions to:
jcappelletti@otpp.com

ILLUSTRATION: KATHRYN ADAMS

Who decides how to use a pension surplus and who is on the hook when there's a deficit?

If you answered the Teachers' pension plan, guess again

The plan's co-sponsors, namely the Ontario government and the Ontario Teachers' Federation, decide how to use a surplus, pay for a deficit and change benefits or contribution rates.

QUICK GUIDE TO THE MAIN ROLES OF THE KEY PLAYERS:

Teachers
contribute up to 8.9 percent of salary, and in return receive a promise of a pension based on years of service (credit) and their average best-five years' salary. The Ontario government matches teacher contributions. In 2001 teachers contributed a total of $640 million, while the government of Ontario contributed $680 million (the difference in the government's contribution is due to interest charges).

Retired teachers
collect pension entitlement, indexed to inflation, guaranteed for life. If a pensioner dies before his or her eligible spouse, a survivor pension, which is also indexed to inflation, guaranteed for life, is paid to the spouse. In 2001 we paid a total of $3.08 billion in benefits.

The co-sponsors: Ontario government, OTF
negotiate how to use the surplus or pay for a deficit. Only the co-sponsors can change benefits.

Since 1993, $18.6 billion in surplus was used by the co-sponsors to improve benefits and eliminate special payments. Today no surplus remains.

The six-member Partners Committee, which is made up of equal representation by the Ontario government and the OTF, negotiates changes to the plan.

Ontario Teachers' Pension Plan
is governed by an independent board and is co-sponsored by the Ontario government and the Ontario Teachers' Federation. We administer the plan and invest the fund's assets, but cannot change benefits.

For more information about the mandate of the pension plan and a company profile, visit our Web site, *www.otpp.com* and go to "About Us" in the pull-down menu. ■

ORGANIZATIONAL ROLES

Ontario Government	OTF	Teachers' Pension Plan
• Co-sponsor	• Co-sponsor	• Investor
• Shares surplus, responsibility for deficit	• Shares surplus, responsibility for deficit	• Administrator
• Negotiates changes to the plan	• Negotiates changes to the plan	• Cannot change benefits

One more way to access pension plan service

Our secure, password-protected Web site is impressive, but still in its infancy. In the next few months this baby's going to grow

Early next year you'll be able to log-on and use a sophisticated calculator that applies your information to estimate your pension for various retirement scenarios.

Let's say you reach your 85 factor in September and you want to know the amount of your pension if you retire a few months earlier. The calculator will let you explore this and other options at your convenience.

Although the calculator is still a few months from being ready, the site already provides a number of functions. For instance, misplaced your copy of your *Personal Statement of Benefits* or want to see your current service record? You can view it online. Want to change your mailing address? Buy back credit for an absence? These functions can be done from the convenience of your computer. You can also schedule a time for one of our pension benefits specialists to call you to discuss a pension matter.

The online service began as a pilot project with about 100 teachers and retired teachers late last year. Today the *i*Access service boasts more than 5,000 teachers and retired teachers, and the number of subscribers grows each day.

"What I like about this (service) option is all the things I haven't even imagined yet… the technological possibilities are all there," says Vidya Jaisaree, a vice-principal on secondment to York University.

Vidya signed up when she called the Teachers' pension plan on another matter and the pension benefits specialist asked if she would like to sign up for the new service. She thought, "why not."

The service is easy and convenient. Like online banking, you do it when you have time — in the late evening or on weekends.

"Online access is just one more way teachers can receive service and information," says Rosemarie McClean, vice-president, Client Services. "I think many teachers also have the expectation that if they can bank online, they ought to be able to access their pension information online."

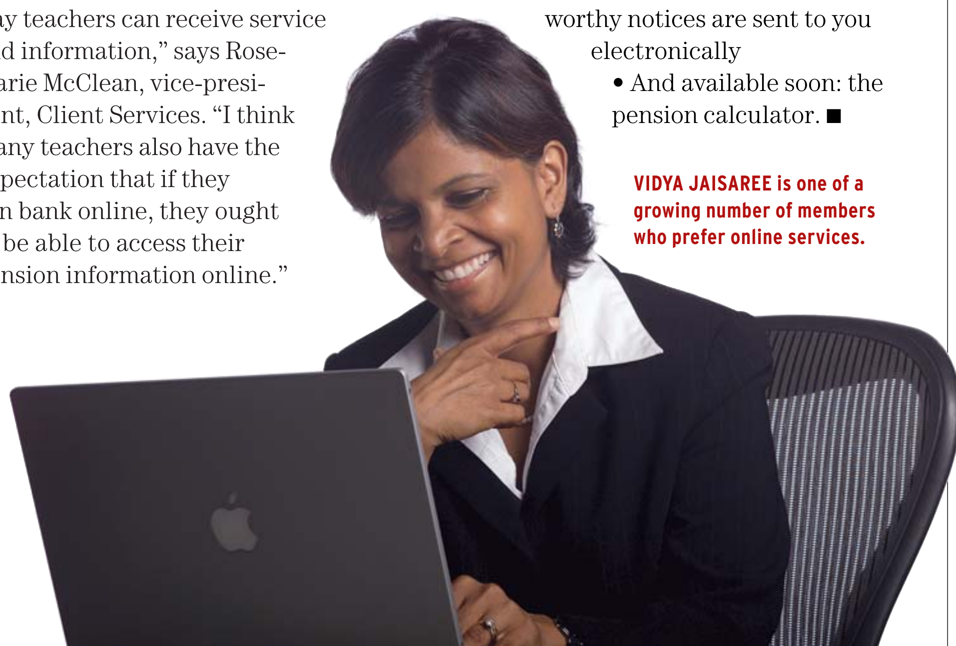
TWO WAYS YOU CAN REGISTER NOW

1. You can call us and the pension benefits specialist on the telephone will be pleased to register you. It takes a few minutes.
2. You can also register by visiting our Web site at *www.otpp.com*. To ensure complete security, you'll need to print out the *i*Access Web registration form, sign it and either fax it or mail it to us. We'll send you your user identification number and temporary password.

*i*Access is the name of our password protected online member services. Give it a try.

BENEFITS OF *i*ACCESS:

• Password-protected access to your pension information
• You can update or change your address, phone numbers and other contact information
• View your *Personal Statement of Benefits*
• Buy back credit for absences
• After you retire, you can view your pension details
• Our publications and other noteworthy notices are sent to you electronically
• And available soon: the pension calculator. ■



VIDYA JAISAREE is one of a growing number of members who prefer online services.

PHOTO: EDEN ROBBINS

Pensionwise™ 19 cents, but less by e-mail

Cost to produce *Pensionwise*™:
19 cents per copy (this includes translation and the printing of the English and French versions).

You can register for the electronic version of *Pensionwise*™. It arrives about a week earlier and the pension plan saves on mailing costs. To register, visit our Web site, *www.otpp.com.* You'll find the registration link on the homepage in the "Highlights" box. You can cancel the electronic service at any time and resume receiving *Pensionwise*™ in the mail. ■

Holiday Closings

This year the Client Services Department offices will be closed on Friday December 27. ■

***Pensionwise*™** is published for members of the Ontario Teachers' Pension Plan.

We appreciate your comments about anything you read in *Pensionwise*. Please contact John Cappelletti at (416) 730-5351 or 1-877-812-7989, or e-mail: jcappelletti@otpp.com

Ontario Teachers' Pension Plan Board
5650 Yonge Street
Toronto, Ontario M2M 4H5

Client Services
Telephone: (416) 226-2700 or 1-800-668-0105
Fax: (416) 730-7807 or 1-800-949-8208
E-mail: inquiry@otpp.com
Web site: www.otpp.com

Ce bulletin est disponible également en français.

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REMINDER

One-time reduction may shrink your RRSP room to zero

You ought to have heard by now. There will be a one-time reduction to your RRSP contribution room beginning January 2003. This is because your pension benefits improved beginning last January.

What does this mean to you?
If you've made maximum annual contributions to your RRSP, you'll likely have negative RRSP room in 2003 and it may be a year or more before you'll have enough room to begin making RRSP contributions again.

What you need to do
Estimate how much RRSP room you'll have available in 2003. You'll find out exactly how much room you have after you file your 2002 tax return and receive your Notice of Assessment from Canada Customs and Revenue Agency, typically next spring.

If you think you won't have room available in 2003, don't begin contributing in 2003 until you receive your Notice of Assessment.

Tip for buybacks
You may want to complete your buyback of pension credit before 2003. If you wait until 2003 when the one-time reduction to your RRSP room takes effect, you may not have the contribution room to make the purchase. If you're buying back credit, contact a pension benefit specialist.

For more information on planning your RRSP contributions for next year, see the May 2002 issue of *Pensionwise*™, available on our Web site, *www.otpp.com*. ■

Deadline Reminder

If you returned from an absence before September 1, 1996, you're eligible to buyback credit on an actuarial cost basis provided you notify us before December 31, 2002. Payment is due within 90 days from the date we provide you with a cost quote. If you miss either deadline, you forfeit the opportunity to buyback the credit. ■

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