

pensionwise™

A Newsletter for Ontario Teachers • Winter 2004 • Issue 6



ERIC RIPP, a construction technology teacher on a 4/5 leave, deferred plans to renovate his home to look after his children.

Pension Grows Seamlessly on 4/5 Leave

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Pension grows while Dad stays home with kids

Eric Ripp's pension is building seamlessly while he takes off a year to be with his young family.

A construction technology teacher at Birchmount Park Collegiate Institute in Scarborough, Eric is on a "4/5 leave." Eric arranged through his employer to receive 80 per cent of his salary for five years in exchange for a year off. Eric is building full pension credit, as if he is working full time, because contributions and benefits are based on 100 per cent of his salary for each of the five years.

"Building credit is easy to do. Everything is handled by my employer," said Eric, a professional carpenter who was going to use the year to renovate his family home until the arrival of children changed his plans.

Deferred salary leaves, sometimes known as x/y plans, enable teachers like Eric to defer payment of a portion of their salary until they are on a leave of absence. No buyback of credit is necessary because pension contributions con-

tinue automatically. Other than x/y plans, members must contact us if they want to purchase credit during or after a leave of absence.

"Although I didn't plan to look after two small children when I signed up for the 4/5, I feel really fortunate to be able to spend this time with them. Renovating our home will have to wait for the next 4/5 leave," said Eric. ■

ERIC RIPP is enjoying time with his children – Kelly, 18 months, and three-year old Adam.



How we protect your privacy



The Teachers' pension plan has codified its commitment to safeguard your personal information.

A new privacy code incorporates the principles we will follow to protect your privacy when we collect, use and dispose of personal information.

The principles reflect the strict privacy standards we already apply in the administration of the pension plan.

For example, we:

- collect and use only that personal information required to administer the plan;
- never sell mailing lists;
- do not disclose information about you without your permission, unless required by law; and
- protect against the loss, theft and unauthorized access of your information.

To handle any concerns or complaints about your privacy, we have designated a senior staff member as our corporate privacy officer.

We also reviewed our privacy standards and practices to confirm they meet a model code incorporated in the federal privacy law that will apply to many organizations in 2004.

For example, iAccess, our secure member Web site, uses different layers of security technology to achieve the same high level of protection as banks and other financial institutions. While iAccess is secure, personal information should not be transmitted in an e-mail message.

The privacy code is posted on our Web site – www.otpp.com. ■

More valuable pensions await teachers

Teachers are retiring earlier, living longer and collecting more pension than ever before.

Major benefit improvements have been introduced in recent years by the plan's co-sponsors, the Ontario government and the Ontario Teachers' Federation.

The plan enhancements have allowed teachers to retire, on average, two years earlier with more valuable retirement pensions.

Here's a summary of the major enhancements, funded from surplus

pension plan funds generated during good market conditions.

EARLY RETIREMENT ENHANCEMENTS

- Teachers can retire with reduced pensions five years earlier, at age 50 instead of age 55. In addition, more teachers can afford to retire on reduced pensions because early retirement reductions for immediate pensions have been reduced

to 2.5 per cent from 5.0 per cent for each point less than 85. Since the early retirement age was lowered to 50 in 2001, 4,300 teachers have chosen to retire before age 55 with reduced pensions.

- Teachers can retire with unreduced pensions about 2.5 years earlier when they reach their 85 factor (age plus qualifying years of service equal 85). Before 1998, a teacher needed a 90 factor to qualify for an unreduced pension.

BIGGER PENSION AT AGE 65

- The average teacher retiring in 2003 will receive about \$2,700 more in annual pension payments after age 65 as a result of improvements to the CPP reduction factor.

OTHER CHANGES

- Death benefits were enhanced with the introduction of a 10-year pension guarantee option. To date, the average 10-year guarantee payment to a member's estate has been worth \$150,000.
- Teachers can now build pension credits without making contributions while on long-term income protection. ■

FAST FACTS

30

Number of years a pension is typically paid to a member

5

Number of years a pension is typically paid to a survivor

30

Number of years a typical teacher contributes to the plan before retiring with an unreduced pension

\$40,000

Average unreduced annual pension for a teacher retiring in 2003

4.3%

Average annual inflation increase in pension during past 25 years

A typical teacher, retiring today at age 55 with a \$40,000 annual pension, can expect to collect more than \$1 million in pension payments from the Teachers' plan during 30 years in retirement. Total pension payments, quoted in today's dollars, are even higher when inflation increases and survivor benefits are factored in.

Investment in Yellow Pages places Merchant Bank on world stage

The value of our investment in the Yellow Pages more than tripled when the company sold units to the public through an income trust fund, seven months after we first acquired an interest in the telephone directories business.

"I can't remember a case where all the stars lined up this way and I'm 56 years old," said Jim Leech, senior vice-president of Teachers' Merchant Bank, the private equity arm of the plan. "It makes our job look easy, but a lot of hard work went on behind the scenes.

"We took a division of Bell Canada and focused on it. Instead of being a forgotten division within a large company, we said, 'This is your sole business so let's make it flourish'."

Flourish it did. In less than a year, we more than tripled the value of our investment. U.S.-based Buyouts newsletter described the 2002 purchase of Yellow Pages by Teachers' Merchant Bank and partner Kohlberg Kravis

TEACHERS' MERCHANT BANK INVESTS IN PRIVATE EQUITY

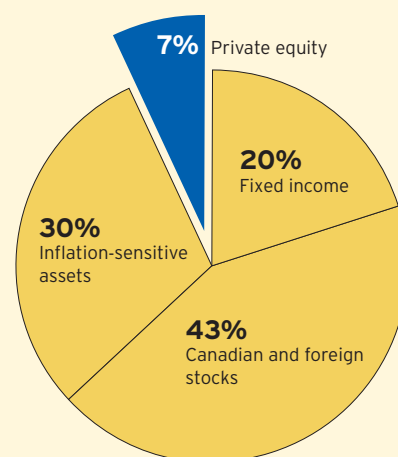
The \$4.5 billion Teachers' Merchant Bank is one of Canada's largest and most sophisticated pools of private equity capital, but one of our smallest asset classes, representing about seven per cent of the plan's \$68.2 billion net assets.

The Teachers' Merchant Bank was formed in 1991 to invest in privately owned companies with large earnings potential. Since its inception, it has invested in more than 130 companies and 40 private equity funds around the world, achieving an annual rate of return exceeding 25 per cent. The merchant bank's annual goal is to beat the Toronto Stock Exchange by two per cent.

The 25-member team usually assesses more than 400 potential investment opportunities every year.

FUND INVESTMENTS

Teachers' Merchant Bank invests about seven per cent of the plan's assets in private equity.



"Our team actively seeks and makes deals with companies around the world." -JIM LEECH



Roberts & Co. as the best investment deal of the year. The creation of the income trust further boosted the value of the investment.

The deals put together by the merchant bank are among the plan's most high profile investments. Last February, we helped lead an international group of investors that purchased the entire private equity portfolio of Deutsche Bank, one of the largest financial institutions in the world. Teachers' Merchant Bank invested \$550 million in the \$2.8 billion purchase to acquire interests in more than 80 private companies, including Jostens, known for school photos and class rings, and Jenny Craig.

TEAM ENHANCES RETURNS

Other recent investments include a \$50 million investment in major luggage manufacturer Samsonite and a 40 per cent equity position in Worldspan, the second largest travel reservation organization in the world. Our best-known investment remains a controlling share in Maple Leaf Sports and Entertainment Ltd., owners of the Toronto Maple Leafs, Raptors and the Air Canada Centre.

Jim credited his "top-notch" team of investment professionals for creating deals that bring long-term value to the plan and its partners.

"Our team actively seeks and makes deals with companies around the world. We partner with our clients and make their business goals our priority. In addition to financing, we support them with strategic advice. The expertise our team brings to the job is fundamental to our success. We take an aggressive approach to managing our investments to reduce risk exposure and enhance returns."

Jim said investments in private equity complement investments in public companies trading on Canadian and foreign stock markets, although they normally take several years to realize full value. ■



You Asked Us...

Q: How are we supporting Maple Leaf Foods' acquisition of Schneiders?

A: Maple Leaf Foods is acquiring Schneiders for \$515 million from U.S.-based Smithfield Foods. We have agreed to buy up to \$150 million in shares if required by Maple Leaf Foods within a year of the purchase. The \$150 million commitment demonstrates the plan's support for the future of the company as a major food producer. The Teachers' plan owns 40 per cent of Maple Leaf Foods, an investment valued at about \$500 million.

Q: The Teachers' pension plan is getting better returns than I am. Can I invest my own money in the fund or arrange for your staff to manage it?

A: Our sole mandate is to invest the assets of the plan to provide members with pension benefits. We cannot invest members' personal funds or provide investment management advice. Any change to our mandate needs to be made by the plan co-sponsors – the Ontario government and the Ontario Teachers' Federation.

Q: Can you explain our involvement in the Toronto Maple Leafs?

A: The Teachers' plan has a 58 per cent stake in Maple Leaf Sports & Entertainment Ltd. (MLSE), which owns the Maple Leafs, Toronto Raptors and the Air Canada Centre.

We do not receive cash dividends from our investment; all money stays with MLSE. We are committed to helping the company build championship teams because in professional sports, winning is good business that creates a more valuable franchise.

The management of MLSE, not the company's board of directors or owners, looks after the day-to-day operations of the organization and decides how much to spend on each player.

Q: How well have our investments performed in 2003?

A: Our investment performance and financial status will be reported after our year-end financial statements are audited. Results will be posted on our Web site and sent to you in the annual *Report to Members* in April. During the first six months of 2003, the plan achieved a 4.6 per cent rate of return, beating the markets by 1.3 per cent. ■

Retirement planning easier with enhanced pension calculator

You now can compare up to four different retirement scenarios on your computer screen using our online pension calculator.

The new display feature makes it easier for you to see how different retirement dates, future salaries or contract percentages will affect your future pension. For example, you can easily see the impact of a \$2,000, \$3,000 or \$4,000 change in your average annual salary.

AFTER-TAX FEATURE ADDED

In addition to the new comparison feature, the calculator now presents your future pension in before- and after-

tax dollars, on an annual and monthly basis. After-tax figures are a new feature provided in direct response to your feedback.

You can now generate after-tax pension estimates.



HOW TO USE THE CALCULATOR

To use the calculator, you need to register for *iAccess*, the secure Web site for pension plan members. If you have an active e-mail account, you can register in a few minutes by telephone at 416-226-2700 or 1-800-668-0105.

The online calculator is one of only a few in the world that uses current information from a personal pension file to generate pension estimates. ■

Choose different internet services

You can sign up for any one or a combination of three Internet services, including:

- *iAccess* – our secure member Web site, where you can calculate pension estimates, buy back service, change your address or view your personal statement of benefits online
- E-mail news – monthly information updates, including an electronic (rather than mailed) copy of this newsletter and the annual *Report to Members*
- E-mail promotional offers – such as discounted tickets to Raptors' games

To register for the services:

- Complete the forms found on our Web site – www.otpp.com. To register for *iAccess*, click the link “*iAccess* Web Registration” in the Plan Info section. To register for e-mail news or promotional offers, complete the form found in the publications section of the Web site.
- Call 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m.

If you sign up for a service and later decide you don't want it, simply opt out. ■

Defined benefit plan provides security

Like most middle-aged people, Maria and David have a new-found interest in their workplace pension plans.

Maria joined the Teachers' plan 20 years ago, around the same time David became a member of his company's pension plan. Both are in their late 40s, with average annual earnings of \$63,000.

David belongs to a defined contribution pension plan that works much like an RRSP. This type of plan defines what an employer contributes to the plan, usually three to five per cent of a member's annual earnings. The Teachers' pension plan Maria belongs to is a defined benefit pension plan. As the name suggests, a defined benefit plan uses a formula to define the benefit to

be paid at retirement - usually a fixed percentage of income for each year a member participates in the plan.

Maria knows what to expect when she retires because estimates are provided in the Personal Statement of Pension Benefits she receives every year from the Teachers' plan. She knows she will receive an inflation-protected pension for life that provides survivor benefits. If she retires when she reaches her 85 factor at age 56, she will receive an unreduced starting pension of about \$40,000 a year.

David, on the other hand, knows he has \$200,000 in his retirement account, but he can't predict what his investment will buy when he retires. That's because his ultimate pension will

KEY PLAN DIFFERENCES	
DEFINED BENEFIT PLAN	DEFINED CONTRIBUTION PLAN
Investment experts decide where to invest the plan's assets	Member determines where to invest assets from selection of investment options provided by plan
Benefit is pre-determined and predictable	Benefit depends on assets in individual account and interest rates at retirement

be based on how well his invested funds perform and interest rates at the time of retirement when he converts his funds to a retirement income stream.

Defined benefit pension plans, including the Teachers' plan, are designed to provide a guaranteed monthly pension for life, based on a member's average earnings and years of service. To meet their benefit obligations, they are required by law to have sufficient assets, over time, to pay all the pensions promised to members. ■

How much do other Canadian teachers pay?

Your pension contributions compare favourably to those paid by teachers in other provinces.

"Although your contribution rates fall in the middle of the pack, it's important to recognize that your benefits are better than those offered by many other teachers' pension plans," said Rosemarie McClean, vice-president of Client Services.

Most of the other pension plans also use a two-tiered formula to calculate member contributions. Members contribute a lower percentage of their salary up to the annual Canada Pension Plan contribution and benefit limit, then a higher percentage on salary above the limit. The limit, which changes annually, is \$40,500 in 2004.

An Ontario teacher earning a salary of \$70,000 will pay almost \$5,600 in pension contributions in 2004, while a teacher earning \$50,000 will contribute about \$3,800. Contribution rates, which are matched by the Ontario government, have remained the same since 1990. ■

MEMBER CONTRIBUTION RATES		
Jurisdiction	% of salary up to \$40,500*	% of salary above \$40,500*
Que.	5.35**	5.35**
Man.	5.7	7.3
B.C.	7.0	8.5
Sask.	7.0	9.0
Ont.	7.3	8.9
NB	7.3	9.0
NS	8.3	9.9
P.E.I.	9.0/7.2	9.0
Nfld.	9.35	9.35
Alta.	9.47	13.52

* Members pay a percentage of their salary up to \$40,500, the CPP contributions and benefits limit in 2004, and a different percentage of their salary above the limit.

**Quebec teachers pay no contributions on salary below \$13,965 and 5.35% on salary above \$13,965.



Brochure demystifies pension benefits

Your pension could be your biggest financial asset, even exceeding the value of your home. To help you learn more about your investment, we have enclosed, with this issue of *Pensionwise*, an updated version of *Your Pension Plan Guide*.

The 20-page brochure provides answers to important questions that affect your future financial security.

Please discard any earlier edition of the publication you may have. If you joined the plan within the last two years, a copy of the guide is not enclosed because you should have received a current brochure upon enrolment. If, however, you want another copy, please contact us. ■

Pensionwise™ is published for members of the Ontario Teachers' Pension Plan at a cost of 19¢ a copy.

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

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This newsletter does not create any right to benefits. Your entitlements and those of your survivors are and will be governed by the language of the pension plan text. The information contained in this newsletter is not intended to be relied upon in relation to any particular circumstance.

Ce bulletin est disponible également en français.



**TEACHERS'™
PENSION PLAN**

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Reesor to retire in March

Al Reesor, Executive Vice-President, Member Services, and Chief Information Officer, has announced his intention to retire in March.

"Since joining us in 1991, Al has made enormous contributions to the Teachers' plan," said President and CEO Claude Lamoureux.

"He led the transformation of service to plan members to a truly outstanding level. Today, fast, personal and accurate service is the expected norm for our 155,000 active teachers and 93,000 pensioners. Al also led the evolution of the use of information technology to its



current state of being indispensable for the effectiveness of both our investment and member services operations. We all wish Al a well-deserved long and happy retirement.

"I am currently reviewing our succession plans and expect to be able to make an announcement in that regard soon," said Claude. ■

Pension benefit improvements reduced your RRSP room

Before you rush out to make your annual RRSP contribution, check to make sure you are allowed to contribute for the 2003 tax year.

An increase in the size of your Teachers' pension at age 65 resulted in a one-time reduction to your RRSP contribution room in 2003. You may not have any room to contribute to an RRSP this year or even next year if you made maximum contributions in past years.

To see how much RRSP room you have, check the Notice of Assessment you received from the Canada Customs and Revenue Agency (CCRA) after you filed your 2002 income tax return or any revised statement the government may have provided to you since then.

The amount the federal government



lets you contribute to an RRSP declined because the value of your Teachers' pension increased when the plan's co-sponsors improved the pension you will receive after age 65.

For more information on RRSP contribution limits, contact CCRA at 1-800-959-8281. ■