TEACHERS' PENSION PLAN ONTARIO

pensionwise™

A Newsletter for Ontario Teachers • **Winter 2007 • Issue 16**

Contributions increase 2% in 2007

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Pension fund tops $100 billion

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Higher contribution rates will help ensure financial security for young teachers like Dennis Ku.

INSIDE THIS ISSUE

Pension contribution rates increase two per cent in 2007

You will contribute an additional two per cent of your salary to your future pension, beginning with your first pay this year.

Grade 3 teacher Dennis Ku is beginning to understand the importance of balancing pension plan assets and liabilities.

The Ontario Teachers' Federation (OTF) and the Ontario government will increase pension contribution rates by a further 0.3 per cent of your salary in 2008 and 0.8 per cent in 2009. The 2009 rate will be confirmed following an assessment of the plan's financial status in 2008.

An average teacher earning $65,000 a year will contribute $6,386 to her pension in 2007, up $1,275 from a year earlier. However, the average teacher's reduction in take-home pay will be about $878 because pension contributions are tax deductible.

The OTF and the Ontario government are phasing in the rate increases, which total 3.1 per cent over three years, to eliminate a $6.1 billion funding shortfall in the pension plan as of January 2005. This is the first rate increase since 1990. Pension entitlements remain the same.

The Ontario government will continue to match total member contributions at the new, higher rates.

Check your first pay stub in January to see exactly how the increase will affect you or consult the chart, *How much will you contribute in 2007?* For many teachers, Canada Pension Plan and Employment Insurance contributions resume in January, further lowering their take-home pay.

The new rates will not change your RRSP contribution room. RRSP room is based on the deemed value of the benefit you earn in the Teachers' pension plan, not on how much you contribute to it.

MORE INFORMATION

- See page 7, *You asked us*
- Visit our website at www.otpp.com
- Visit the Ontario Teachers' Federation (OTF) website at www.otffeo.on.ca ■

HIGHLIGHTS

In 2007, you will contribute 2% more of your salary to your pension.

Contributions will average 10% of earnings in 2007, up from 8%.

Additional increases are scheduled for 2008 and 2009.

Rate increases are designed to balance pension plan assets and the cost of providing pension benefits.

FAST FACTS

8%	10%	$800 MILLION	$800 MILLION
Average contribution rate, as a percentage of salary, in 2006	Average contribution rate, as a percentage of salary, in 2007	Contributions paid by the Ontario government in 2005	Contributions paid by teachers in 2005

PHOTOGRAPHY: EVAN DION

How much will you contribute in 2007?

ANNUAL SALARY	2007 PENSION CONTRIBUTIONS	2006 PENSION CONTRIBUTIONS	PRE-TAX INCREASE	DECREASE IN TAKE-HOME PAY
$ 30,000	$ 2,790	$ 2,190	$ 600	$ 471
35,000	$ 3,255	$ 2,555	$ 700	$ 549
40,000	$ 3,720	$ 2,920	$ 800	$ 543
45,000	$ 4,206	$ 3,331	$ 875	$ 603
50,000	$ 4,751	$ 3,776	$ 975	$ 671
55,000	$ 5,296	$ 4,221	$ 1,075	$ 740
60,000	$ 5,841	$ 4,666	$ 1,175	$ 809
65,000	$ 6,386	$ 5,111	$ 1,275	$ 878
70,000	$ 6,931	$ 5,556	$ 1,375	$ 932
75,000	$ 7,476	$ 6,001	$ 1,475	$ 989
80,000	$ 8,021	$ 6,446	$ 1,575	$ 868
85,000	$ 8,566	$ 6,891	$ 1,675	$ 948
$ 90,000	$ 9,111	$ 7,336	$ 1,775	$ 1,005

Pension contributions are tax deductible, which lowers the out-of-pocket impact of the rate increases. The decrease in take-home pay shown in this chart is based on July 2006 income tax exemptions and rates. Your out-of-pocket increase could be different if you have additional income or deductions.

Annual contribution rates

(As a percentage of your salary)

YEAR	TEACHERS			ONTARIO GOV./DESIGNATED EMPLOYERS		
	Up to CPP limit*	Above CPP limit*	Increase	Up to CPP limit*	Above CPP limit*	Increase
2006	7.3%	8.9%	–	7.3%	8.9%	–
2007	9.3%	10.9%	2.0%	9.3%	10.9%	2.0%
2008	9.6%	11.2%	0.3%**	10.4%	12.0%	1.1%
2009+	10.4%	12.0%	0.8%	10.4%	12.0%	–
TOTAL			3.1%			3.1%

* The Canada Pension Plan (CPP) limit is the maximum earnings on which CPP contributions and benefits are based. The limit, which changes annually, is $43,700 in 2007.

** Member contributions in 2008 are being partially subsidized by the OTF with a credit reserve from the 1998-2001 pension negotiations.

+ Contribution rates in 2009 and later years may change, depending on the financial status of the pension plan.

Pensions 101: get to know your investment

Your pension may become your most valuable financial asset, exceeding even the value of your home. Here are some key facts to help you better understand your investment.

BASIC PENSION PACKAGE

- **Defined benefits** – Your retirement pension is defined by a formula. Your basic annual pension equals:

2% X years of credit X average "best-5" years of salary

At age 65, your pension is reduced to reflect the plan's integration with the Canada Pension Plan (CPP).

- **Reduced early retirement** – A reduced pension is available as early as age 50 if you want to retire before you reach your 85 factor (see next section).
- **Opportunities to boost pension** – You can buy back credit for eligible leaves of absence, subject to certain conditions.
- **Survivor benefits** – Your eligible spouse or dependent children will get a survivor pension when you die.

OTHER KEY FEATURES

- **Inflation protection** – Your pension will keep pace with cost-of-living increases, as measured by changes in the Consumer Price Index (CPI). Increases are capped at eight per cent a year, with any excess carried forward to be paid in a year with lower inflation.
- **85 factor** – You can retire with an unreduced pension when your age plus qualifying years of service equal 85 (known as your 85 factor). ■

$100,000,000,000 and counting...

The Teachers' pension fund hit the $100 billion mark on Oct. 24. That's a far cry from the $19 billion Bob Bertram and his team were hired to invest in 1990. From 1990 to the end of 2005, the fund achieved an average annual rate of return of 11.7 per cent. That's $19.3 billion more than the markets returned during the same period. Bob's investment track record was recently recognized with a lifetime achievement award (see page 8). But he's the first to point out it takes a dedicated team to consistently achieve above-average returns. Here are the key players working on the next $100 billion, and an overview of the portfolios they manage.

FIXED INCOME

SENIOR VICE-PRESIDENT:
SEAN ROGISTER
PORTFOLIO SIZE:
ABOUT 27% OF TOTAL FUND

Overview: We invest in the full range of fixed income products and money-market securities in Canada and internationally. Primary holdings include government securities in North America (federal, provincial, state and municipal), as well as high-grade corporate bonds. Bonds, as well as money-market instruments, provide the pension fund with liquidity to settle investment transactions and, in conjunction with value-added strategies, a regular stream of income to pay monthly pensions.

Top 5 investments: U.S. government securities, Province of Ontario securities, Highway 407 bonds, inter-bank contracts, and secure corporate loans.

Proudest team accomplishment: Consistently outperforming benchmarks by diversifying opportunities globally.

Greatest challenge facing team: Building a culture that combines strong risk controls with the delivery of stellar returns.

PRIVATE EQUITY, VENTURE CAPITAL, INFRASTRUCTURE AND TIMBER

SENIOR VICE-PRESIDENT:
JIM LEECH
PORTFOLIO SIZE:
ABOUT 11% OF TOTAL FUND

Overview: Teachers' Private Capital, our private investment arm, is one of Canada's largest and most sophisticated pools of investment capital. We specialize in providing capital for large and mid-cap companies, and venture capital for developing industries, such as biomedical technology. We also provide capital for a growing portfolio of timber and infrastructure assets, including highways, airports, pipelines, ports, water systems and gas distribution networks. We search the world for appropriate investments, putting capital to work in Canada, the U.S., Europe, Africa, Australia and Asia.

Top 5 investments: Maple Leaf Sports & Entertainment, Bell Globemedia, InterGen N.V., Scotia Gas Networks PLC, and four marine terminals being purchased from Orient Overseas (International) Ltd. (see page 7).

Proudest team accomplishment: Positioning Teachers' Private Capital as a global leader in infrastructure and private equity investments.

Greatest challenge facing team: Acquiring the best assets at the right price in the face of increasing global competition.

SO HOW MUCH IS 100 BILLION?

$100 BILLION IS ENOUGH TO FUND EDUCATION IN ONTARIO FOR ABOUT EIGHT YEARS.

IT WOULD TAKE **3,169 YEARS** TO COUNT TO 100 BILLION, AT A NUMBER EVERY SECOND.

$100 BILLION COULD BUY 2.5 BILLION CANADIAN OXFORD ENGLISH DICTIONARIES.

100 BILLION LOONIES LAID SIDE-BY-SIDE WOULD EXTEND ACROSS CANADA **480 TIMES**.

$100 BILLION COULD BUY EVERYONE IN THE WORLD A $15 GIFT.

$100,000,000,000 and counting...

(continued from page 4)

PUBLIC EQUITIES

SENIOR VICE-PRESIDENT:
BRIAN GIBSON
PORTFOLIO SIZE:
ABOUT 27% OF TOTAL FUND

Overview: We are a shareholder in 1,100 companies around the world. We invest in public equities in three major ways: stock market indexes, actively managed equities, and large-scale strategic investments. We employ a variety of strategies to achieve the best returns possible at the lowest level of risk. We look throughout the world for good investment opportunities, and we make our investment decisions one stock at a time. We have been able to achieve excellent results by taking a longer term view and identifying companies we believe are poised for long-term growth.

Top 5 investments: Nexen Inc., BCE Inc., Fording Canadian Coal Trust, Maple Leaf Foods Inc., and Macdonald, Dettwiler and Associates Ltd.

Proudest team accomplishment: Starting with a Canadian-only platform in 1999, we have built a global equity investment team that has generated one of the highest rates of return in the world.

Greatest challenge facing team: High stock prices make it increasingly difficult to find investments that will provide above-market returns.

REAL ESTATE

PRESIDENT & CEO:
PETER SHARPE
THE CADILLAC FAIRVIEW CORPORATION LIMITED
PORTFOLIO SIZE:
ABOUT 11% OF TOTAL FUND

Overview: Cadillac Fairview is one of the largest investors, owners and managers of commercial real estate in North America. Assets include about 100 premium retail and office properties or about 48 million square feet of leasable space. A private, wholly owned subsidiary of the Teachers' pension plan, the company also oversees investments in real estate companies and international investment funds.

Top 5 investments: Toronto Eaton Centre; Toronto Dominion Centre; Pacific Centre, Vancouver; Chinook Centre, Calgary; and Sherway Gardens, Toronto.

Proudest team accomplishment: Growth strategy to diversify through international expansion into Brazil.

Greatest challenge facing team: Inflated pricing of the Canadian and U.S. real estate markets has created a challenging investment environment.

TACTICAL ASSET ALLOCATION & ALTERNATIVE INVESTMENTS

SENIOR VICE-PRESIDENT:
NEIL PETROFF
PORTFOLIO SIZE:
ABOUT 24% OF TOTAL FUND

Overview: Perhaps the most complex portfolio, this group includes tactical asset allocation, U.S. and non-North American equity indexes, foreign exchange, commodities, derivatives, hedge funds and other internally managed alternative investments. The team aims to generate consistent and stable returns in the global financial markets, regardless of the markets' directional movements.

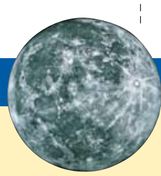
Top 5 investments: Non-Canadian equity indexes, foreign exchange currencies to hedge non-Canadian equities, tactical asset allocations, commodities, and externally managed hedge funds.

Proudest team accomplishment: Consistent profitability – we haven't had a losing year since 1999.

Greatest challenge facing team: Competition from other investors which emulate our pioneering investment strategies. This means we must constantly find new ways to invest.

Total fund percentage quoted is based on net investments as of Dec. 31, 2005.

ABOUT
100 BILLION
PEOPLE HAVE LIVED SINCE THE DAWN OF TIME.



IF STACKED, 100 BILLION LOONIES WOULD EXTEND ALMOST HALFWAY TO THE MOON.

$100 BILLION COULD BUILD A $613,000 HOME FOR EVERY ACTIVE ONTARIO TEACHER.

$100 BILLION WOULD EARN
$13.7 MILLION
IN INTEREST A DAY, ASSUMING A FIVE PER CENT INTEREST RATE.

$100 BILLION MATCHES THE COMBINED WEALTH OF BILL GATES AND WARREN BUFFET.

Teachers prepare to retire online

Anne Wilks knows how easy it is to apply for a pension online.

The former elementary school teacher was among 1,800 members, or 40 per cent of retirees, who applied for a pension last year on *i*Access Web, the secure members-only section of our website.

The online pension application process, introduced a year ago, is part of a personal one-stop Retirement Centre that also allows members to:

- create and compare pension estimates based on various what-if scenarios;
- select survivor benefit options;
- link into a buyback calculator;
- verify personal information; and
- track the processing of their pension application.

Printed copies of documents, such as birth certificates, are still required to support the online application. You can identify the documents you need when you visit the Retirement Centre. But don't delay a visit; it can take months to track down missing documents, especially from other countries.

To use the Retirement Centre, visit our website at www.otpp.com and click the member sign-in button.

You can apply online for your pension up to four months before your pension start date.

APPLY ONLINE IN SIX EASY STEPS

1. Tell us when you want to begin your pension.
2. Answer a few work-related questions.
3. Verify your personal information.
4. Tell us where to deposit your monthly pension.
5. Review your application and submit it online.
6. Print your online application for your records.

HOW TO REGISTER FOR *i*ACCESS WEB

1. Call 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m.; or
2. Complete the *i*Access Web registration form, found on our website at www.otpp.com, and mail or fax it to us. ■

MEMBERS MUST RESIGN TO COLLECT PENSION

You cannot begin to collect a pension while employed in education. To start your pension, you must resign from your job and sever your relationship with your employer. A resignation is considered valid only if:

- your Board of Education confirms acceptance of your resignation without condition;
- no arrangement has been made to work in education; and
- you have received or arrangements have been made to pay any applicable gratuity.

Pension income splitting introduced

If you plan to retire soon, take note of a new federal government decision that allows you to allocate up to one-half of your pension income to your spouse for tax purposes.

Pension income splitting could result in tax savings if you and your spouse have disparate incomes. For example, if you collect an annual pension of $40,000 and your spouse earns only $10,000, you could transfer $15,000 to your spouse to equalize your incomes and reduce combined taxes.

The government will allow you to split your pension income when you file your annual income tax return, beginning with the 2007 return you file in 2008. The change is not expected to affect the way a Teachers' pension is paid or the tax we withhold from pensions. ■

Fund signs US$2.4 billion infrastructure deal

The Teachers' pension fund made its largest infrastructure investment late last year with an agreement to purchase four marine container terminals for US$2.4 billion.

The terminals, with combined annual sales of US$500 million, include the main New York container operation on Staten Island, as well as facilities in New Jersey, Vancouver and Delta, B.C.

"This acquisition represents solid, robust assets, has little vulnerability to market or economic vagaries, and features a very attractive growth profile that we will support," said Jim Leech, Senior Vice-President and head of Teachers' Private Capital.

The terminals, purchased from Hong Kong's Orient Overseas (International) Ltd., will raise the fund's total investments in infrastructure to more than $7 billion. The fund's international infrastructure portfolio also includes petroleum pipelines, gas distribution networks, power generation facilities, water services, toll roads, bridges and airports.

"Infrastructure is an ideal investment for pension plans because it is less sensitive to economic slowdowns and competition, and provides stable, long-term returns, linked to inflation," Jim said.

Container terminals link sea and land-based transportation. Each of the four facilities comprise a terminal within a port, where containers are loaded or unloaded onto ships, trucks and trains. ■

You Asked Us...

Q: How will the government's decision to tax income trusts affect our pension plan's investments?

A: The Teachers' pension plan has about $3 billion invested in income trusts, or approximately three per cent of the total fund. While the decision resulted in an immediate capital loss for the pension fund, we do not rely on any single investment or asset class to deliver the returns we need to pay promised pensions. The fund is highly diversified.

The new taxation policy will be phased in over four years, providing ample time to adjust our portfolio, if necessary, and pursue new investment opportunities.

Income trusts are similar to public companies, but distribute most of their profits to unit-holders as monthly income. The federal government has decided to tax the income distributed to unit-holders to stem the growing number of companies converting to trusts and the perceived loss in tax revenue.

Q: How did the pension plan end up with a shortfall when it has $100 billion in assets?

A: The pension plan has more than $100 billion in assets and pays retired teachers about $3.4 billion a year. That means it has enough money to meet its pension payroll for many years. But pension plans are required to have sufficient assets today to pay pensions to current members who may be collecting benefits in 50, 60 or even 70 years from now.

The pension plan reported a $6.1 billion shortfall in its last funding valuation in January 2005. That shortfall will be eliminated with increased contributions from the Ontario government and members, beginning in 2007 (see page 2).

Q: Is another shortfall possible?

A: Many conditions that led to the 2005 funding shortfall, including low real (after inflation) interest rates, continue today. If the conditions persist, the pension plan could report another funding shortfall when it files its next financial review with the government in 2008.

A shortfall exists when plan liabilities (the cost of future pensions) exceed plan assets (stocks, bonds, etc.). The Ontario Teachers' Federation and the Ontario government will face three possible situations in 2008:

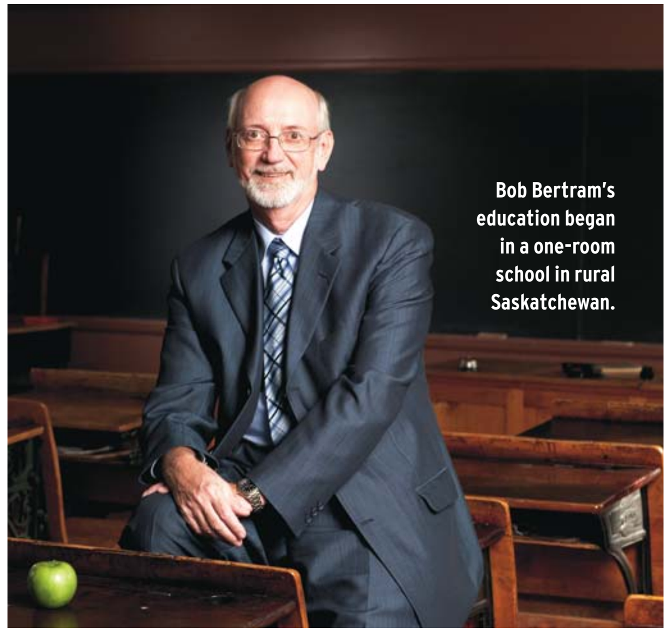
1. If assets equal liabilities the plan is in balance and no change is required.
2. If assets are greater than liabilities, the plan has a surplus that can be used to reduce contribution rates.
3. If liabilities are greater than assets, the plan has a shortfall. A shortfall would require an increase in contribution rates, a reduction in pension benefits to be earned in the future, or both to bring the fund back into balance.

Rest assured that pensions being paid to retired members and pension benefits earned to date cannot be reduced under Ontario's Pension Benefits Act. ■

NEWS

Bertram wins award for lifetime investment achievement

Bob Bertram has been honoured for demonstrating leadership, innovation and superior results in the management of pension plan assets.



Bob Bertram's education began in a one-room school in rural Saskatchewan.

The executive vice-president of investments for the Teachers' pension plan won the inaugural lifetime investment achievement award from *Benefits Canada* magazine last year.

"He has changed the way Canada thinks about pension investments," said *Benefits Canada* editor Don Bisch.

"…Under his leadership, Teachers' has been the top-performing Canadian pension fund almost every year since it became an independent corporation in 1990."

From humble beginnings in Saskatchewan – Bob was the 12th of 14 children raised on a grain farm – he joined Alberta Government Telephones, now Telus Corp., where he spent 19 years and managed the company's $2 billion investment fund.

"Farm habits of early days, hard work and long hours, are lessons you never forget. It made me what I am today," Bob said.

When Bob joined the Teachers' plan in 1990, the $19-billion pension fund was invested exclusively in fixed income assets. Bob quickly moved to change that, pioneering many of the investment strategies and asset classes that are now common in the pension industry. Today, the plan has more than $100 billion in assets.

"I have never met Bob Bertram, but there is no question that the pension plan, under his leadership, has been a major player in the quality of life I have as a retiree, and the security I feel in my future," wrote retired teacher Dale Shortliffe. ■

DID YOU KNOW?

WITH A

10%

rate of return, investments will double every seven years.

THERE'S A

42%

chance you or your spouse will survive to age 90 if you make it to 65, reports an American study on life expectancy.

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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