TEACHERS' PENSION PLAN ONTARIO

pensionwise

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Defined benefit plans provide predictable income in retirement

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INSIDE

Defined benefit pension plans provide predictable income in retirement

Turbulent financial markets highlight the value of belonging to a secure workplace pension plan.

"Unlike many other retirement savings arrangements, your Teachers' pension is not based on day-to-day market performance or the value of the pension fund on the day you retire," said Jim Leech, President and CEO of the Ontario Teachers' Pension Plan.

Your Teachers' pension is defined by a formula based on your pension credit and average earnings. This makes it easy to estimate the pension you will get when you retire.

Market turmoil has reduced the retirement savings of people all over the world. While the Teachers' pension plan also expects to report losses when it releases its financial results next April, you can still expect a predictable income in retirement.

"It's important to understand that your pension will be there for you. Pension benefits you have already earned are protected by legislation," Jim said.

Barbara Zvan, Teachers' Senior Vice-President, Asset Mix and Risk, said it's too early to tell whether market conditions will lead to a future funding shortfall in the Teachers' plan. Many factors affect the plan's funding status, including investment performance, real interest rates and member demographics.

Last fall, the Ontario Teachers' Federation and the Ontario government announced a change in the cost-of-living provision to help manage future funding challenges.

Inflation increases for pension credit earned after 2009 will range from 50 to 100 per cent of the change in the cost of living, depending on the financial status of the pension plan. ■

Scheduled rate increase goes into effect

You will contribute a little more to your pension, beginning with your first pay in January.

Pension contributions are increasing by an average of 0.8 per cent of salary, or $600 a year for an average teacher earning $75,000. The higher rate will be partially offset by lower taxes because pension contributions are tax deductible.

The increase is the final in a series of three rate hikes required to eliminate the pension plan's 2005 funding shortfall. (A change in the inflation provision addressed a second shortfall in 2008.)

In 2009, you will contribute:

- 10.4 per cent of salary up to the Canada Pension Plan (CPP) contributions and benefits limit; and
- 12.0 per cent of any salary above the limit.

The CPP limit, which changes every year to match average wage increases, is $46,300 in 2009.

The Ontario government and designated employers that participate in the pension plan will continue to match total member contributions.

To see how much you contribute to your pension, check the pay summary you receive from your employer. You can also view your contributions online at *i*Access Web, the secure members-only section of our website at www.otpp.com. ■

Commuted values to decline with change in industry guidelines

The Canadian Institute of Actuaries is updating the guidelines pension plans use to calculate commuted values (CVs) to reflect updated mortality tables and long-term bond yields.

The new guidelines, scheduled to go into effect in April, will lower CVs for members of defined benefit pension plans. The reduction will depend on the level of interest rates at the time the guidelines are changed. Based on recent interest rates, CVs will be reduced by 10 to 15 per cent, with younger members experiencing greater reductions than older members.

The CV is the amount of money required today to provide your pension in retirement. It's payable only if you die before retirement or leave the education field before age 50 and move your pension funds to another retirement savings arrangement. The CV does not affect the formula used to calculate your Teachers' pension. That formula, based on your average earnings and years of credit, remains unchanged.

"This change will affect only a small number of members, mostly those who choose to transfer their CV when they leave teaching before retirement," said Rosemarie McClean, Senior Vice-President, Member Services.

"Most terminating members leave their investment in the Teachers' plan to collect as a pension when they reach retirement age because it's usually in their best financial interest to do so. Members who leave their money in the plan won't be affected by the change."

The CV of your pension fluctuates regularly with changes in bond yields. Generally, CVs grow as your age, salary and years of credit increase. ■

Teacher wins shopping card

Malisa Mani-Moghaddam won more than a shopping card when she signed up for *i*Access Web, the secure members-only section of our website. The Grade 3 teacher from Central Park Public School in Markham cited reduced clutter, paper savings and convenience as other key benefits of registering for online pension services. Malisa won the card in a promotion designed to encourage new teachers to sign up for *i*Access Web, a move that saves trees and administration costs.

Account number helps protect your privacy

There's safety in numbers. To help protect your privacy, we are stepping up the use of your Teachers' pension account number.

"Every member has a unique pension account number," said Rosemarie McClean, Senior Vice-President, Member Services. "It is assigned for life when you join the pension plan. The number helps us confirm your identity and protects your privacy when you access personal pension services by phone, mail or online."

The Teachers' pension account number, formerly called an IRN, replaced the use of social insurance numbers (SINs) as the primary member identifier. The number appears on the bottom of all personal documents you receive by mail and is the nine-digit user ID required to sign into *i*Access Web, our secure members-only website.

When you sign into the secure website, you will notice the user ID field has been renamed "account number." The name is changing; the nine-digit number is not.

If you call our Client Services department, you only need to quote your pension account number if you are calling from somewhere other than your home. That's because our integrated communications system recognizes your home phone number and displays your personal pension file on our staff's computer screen within seconds of your call.

"If you don't know or remember your number, don't worry," Rosemarie said. "It's just one of many ways we can identify you to provide service." ■

Managing risk

Diversification the hallmark of pension fund management

Teachers' investment managers use an array of investments and techniques – applied across many sectors and around the world – in an effort to earn the returns required to pay pensions.

"In normal times, different kinds of assets move independently. Some go up, some are flat and some go down. Having a well-diversified portfolio means fund returns are more stable over the long term," said Neil Petroff, the new Executive Vice-President of Teachers' investment program.

"In this climate of unprecedented market turmoil, diversification won't save us from negative returns because all asset classes have dropped. However, we're staying the course with our investment strategy and we believe the fund is well-positioned to take advantage of the next market cycle," Neil said.

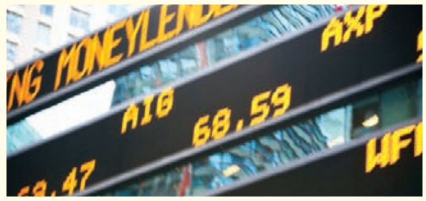
Less than half of the fund is invested in equities today, compared to about 65 per cent 12 years ago.

Selecting the right mix of assets for the pension plan is a balancing act. Teachers' investment managers compare the risk-and-return profiles of different types of investments and strike a balance that allows the fund to grow over the long term within acceptable risk limits.

"Diversification means a lot more to us than putting our eggs in many baskets. We need to buy different assets to meet different needs, based on the plan's immediate and long-term pension obligations," Neil said.

Pension plan members range in age from 23 to 106. Each asset class plays a different role in helping the pension fund generate returns to match its liabilities, or the cost of future pensions.

PUBLIC EQUITIES



SCOPE: Shares in public companies on Canadian, U.S. and foreign stock exchanges
PROFILE: Potential to earn higher returns than fixed income, but markets are unpredictable
OBJECTIVE: Growth

Compared to bonds, public equities have better long-term earning potential and equip the pension fund for growth. In fact, the fund has earned billions from its equities investments since the investment program began in 1990.

However, as current markets demonstrate, volatility – or risk of loss in any one year – is three times higher for equities than it is for fixed income. Although the pension fund needs to grow to keep pace with rising pension costs, limiting equity investments to less than half of the fund is prudent given the plan's demographic profile.

PRIVATE EQUITY

SCOPE: Ownership stakes in private companies that do not trade on public markets
PROFILE: Higher risk-and-return potential than shares in public companies
OBJECTIVE: Superior returns

Investing directly in private companies provides opportunities to earn premium returns to help pay pensions. In fact, this portfolio has delivered average historical returns in the range of 25 per cent a year. About $9 billion of the fund is invested in private companies, including significant investments in such diverse companies as:

- Maple Leaf Sports and Entertainment;
- CTVglobemedia;
- AOT Bedding, maker of Serta mattresses;
- Easton-Bell Sports, makers of branded sporting goods;
- Alliance Laundry Systems, makers of Speed Queen and other brand names;
- Kabel Deutschland, the largest cable network operator in Germany; and
- Grupo Corporativo ONO, Spain's largest cable operator.

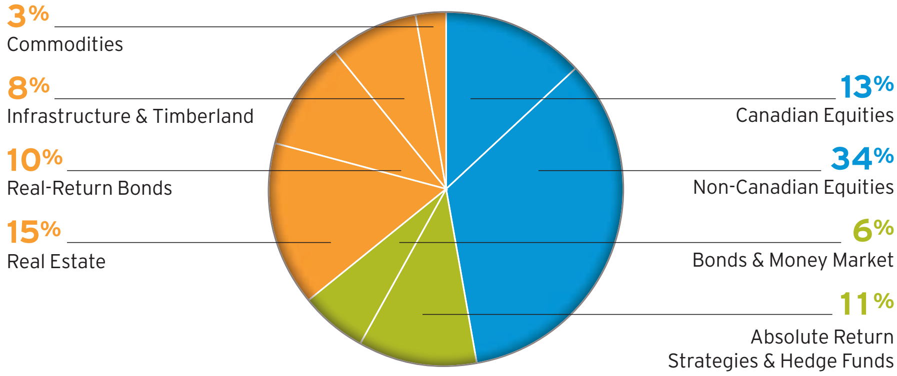
Actual Asset Mix

(AS AT DECEMBER 31, 2007)

47% Equities

36% Inflation-Sensitive

17% Fixed Income



Teachers' highly diversified portfolio includes a broad range of investments outside stock markets. Our 2008 investment performance will be reported in April.

FIXED INCOME

SCOPE: Government and corporate bonds, T-bills, commercial paper and other investments, as well as money-market securities, hedge funds and absolute return strategies

PROFILE: Lower risk with modest return expectations

OBJECTIVE: Safety and liquidity

To balance the higher risks of investing in equities, we also hold fixed income investments that, typically, carry lower risk and earning potential. Because these assets normally convert to cash easily, they enable the pension fund to pay monthly pensions and settle daily investment transactions.

Other investments in this asset class, specifically hedge funds and absolute return strategies, are used to lower the fund's risk of losing money in poor market conditions. The hedge funds and absolute return strategies that we use aim to earn positive returns regardless of which way markets move – up or down.

INFLATION-SENSITIVE INVESTMENTS

SCOPE: Real estate, infrastructure and timberlands, commodities and real-return bonds

PROFILE: Lower risk, steady earners

OBJECTIVE: Good match for paying inflation-indexed pensions

Inflation-sensitive investments provide stable returns that are linked to inflation rates, helping the pension fund meet the growth in inflation. A simple example is a real-return bond that pays interest adjusted to inflation.

Commodities are part of this portfolio because they behave the same way. For example, last summer, soaring oil prices raised fears that high fuel costs would lead to higher inflation. As a rule of thumb, when commodities markets are hot, inflation also tends to rise – making commodities a good offset to the cost of paying inflation-indexed pensions.

Inflation-sensitive assets are also attractive because they operate outside publicly-traded markets and usually offer more predictable returns. These "steady earners" have good cash flows that can see the pension plan through periods of rough markets. Inflation-sensitive assets consist primarily of income-producing commercial real estate and regulated infrastructure businesses, such as power plants, gas networks, water utilities, port facilities and airports. ■

Investment pioneer retires after building world-class pension fund

Bob Bertram, who built Teachers' investment group from a one-man operation to a world-class team, retired in December after 18 years of service.

Bob managed the pension fund's growth to more than $100 billion from $19 billion by adopting innovative investment strategies that have been emulated by pension funds around the world.

"Under his leadership, Teachers' has achieved many firsts — gaining the right to use derivatives, buying a major operating real estate company and being early to invest in private equity, commodities, infrastructure and timber," said Jim Leech, President and CEO of the Ontario Teachers' Pension Plan.

In celebration of his achievements, friends and the Institute of Corporate Directors created a $1.2 million endowment to support the study of corporate governance. The Robert Bertram Doctoral Research Award will provide up to $15,000 a year for PhD candidates at Canadian universities.

Neil Petroff (left) is the new head of investments, succeeding Bob Bertram who retired in December.

When Bob joined the pension fund in 1990, assets were held exclusively in non-marketable Ontario government bonds. He moved quickly to change the fund's asset mix to better match its liabilities, pumping money into non-traditional pension assets, such as derivatives and hedge funds. The strategy resulted in the best performance of any large Canadian pension fund in most of the past 18 years. Since 1990, the fund has earned an average annual rate of return of 11.4 per cent and returned $25 billion more than the markets in which it invests.

"He is the smartest investment pro I have ever met," said Claude Lamoureux, former head of the Teachers' pension plan, who chose Bob as the pension plan's first investment employee.

"He knows how to develop others and give them the confidence to succeed."

Bob's performance and innovation have been widely recognized. Last year, *Institutional Investor* magazine named him one of the 75 most influential people in the world of finance, joining a prestigious group that includes billionaire investor Warren Buffet and Ben Bernanke, the U.S. Federal Reserve Board chairman.

Other accolades include the inaugural lifetime investment achievement award from *Benefits Canada* magazine and an award from the Richard Ivey School of Business for achievements in business and a commitment to strong corporate governance in Canada.

But perhaps the best recognition comes from members, like retired teacher Dale Sutcliffe.

"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." ■

Petroff assumes top investment post

Neil Petroff is the pension plan's new Executive Vice-President, Investments, replacing former boss and mentor Bob Bertram who retired in December.

Since joining the pension plan in 1993, Neil has held progressively more senior positions, most recently as Group Senior Vice-President, Investments.

Teachers' President and CEO Jim Leech said Neil's appointment reflects a tradition of cultivating talent from within the organization.

"Neil has broad exposure and management experience in a wide range of asset classes and investment products. This has prepared him to lead our investment program well into the future," Jim said.

Neil began his investment career more than 25 years ago at the Bank of Nova Scotia, later moving to Guaranty Trust and Royal Trustco. During his 15 years at the Teachers' plan, Neil has overseen all asset classes and portfolios, and served for 13 years on the investment division's executive management team.

He holds a BBA and an MBA from York University, and is a graduate of the Institute of Corporate Directors. Neil serves on the boards of several companies.

In 2007, Neil was jointly recognized for innovative hedge fund management when Teachers' was named Public Pension Fund of the Year by *Alternative Investment News.*

The new investment chief said one of his team's biggest challenges "is navigating through the current financial market instability and finding new ways to invest teachers' assets within acceptable risk limits." ■

You Asked Us...

Q: How much money has the pension fund lost because of the turmoil in financial markets?

A: We report our investment performance once a year after our financial statements are audited. Our 2008 financial results will be presented, as usual, in the *Report to Members* you receive in the spring. We expect to report a drop in the pension fund's value at that time because of the global economic downturn.

Q: Are pensioners who work after retirement contributing to pension funding challenges?

A: Pensioners who work after retirement are not earning benefits and, therefore, do not add to the pension plan's liabilities (the cost of providing benefits). The pension plan's maturity, not its re-employment rules, created funding challenges.

Q: Why was the BCE purchase agreement terminated?

A: The agreement providing for the acquisition of BCE Inc. by BCE Acquisition Inc., a company organized by an investor group including the Ontario Teachers' Pension Plan, was terminated in December.

Under the agreement, receipt of a solvency opinion from a nationally recognized valuation firm was required as a mutual closing condition. The agreement of BCE Acquisition and BCE to both the selection of KPMG to serve as the valuation firm and the form of the solvency opinion was reflected in an amendment to the agreement earlier this year. Because KPMG concluded that a required test for the solvency opinion was not met, this mutual condition to completion of the acquisition could not be, and was not, satisfied.

Q: Can I outlive my future retirement pension?

A: No, when you retire, your pension will be paid for life.

Q: My spouse and I are negotiating a separation agreement. Will I be able to immediately split my Teachers' pension when my marriage ends?

A: You may soon have increased flexibility when negotiating a separation agreement. Proposed legislation would allow you to immediately transfer to your former spouse up to 50 per cent of the value of the pension you accumulated during your marriage. Under current law, your former spouse must wait until you retire, terminate plan membership or die to receive a portion of your pension. More details will be provided to members when the Family Statute Law Amendment Act, 2008 is enacted. ■

Member Services head makes list of top 100 women


Rosemarie McClean

It's a long way from her North York office to the ice floes in Antarctica, but Rosemarie McClean is always going somewhere. The Senior Vice-President of Member Services and part-time world adventure traveller was recognized in November by the Women's Executive Network as one of the most powerful women in Canada. The network annually recognizes the achievements of 100 women in all fields of endeavor.

Since joining the Teachers' pension plan as a pension benefits specialist in 1986, Rosemarie has risen through the ranks to the executive team and the number one member services job.

Under her leadership, the speed, range and quality of client services has improved to a first-place ranking among similar pension plans from around the world.

When she's not improving member services, Rosemarie may be hiking the trail to Machu Picchu, scuba diving on the Great Barrier Reef or photographing wildlife in the Serengeti.

New re-employment rules are introduced

The Ontario Teachers' Federation and the Ontario government have changed the plan's re-employment provisions. If you are thinking about returning to work after retirement, the following new rules apply:

- Re-employment limits have been extended to pensioners of all ages. Before the change, the limits did not apply to members aged 71 or older.
- Contributions are no longer required from pensioners who exceed the re-employment limit, with one exception noted below. However, pensions will still be suspended when members work after the month in which they exceed the limit.
- Pensioners can choose to have their pensions recalculated to include the additional credit accumulated while re-employed only if they:
  - notify us of their intention before they return to work;
  - have their pension suspended as soon as they become re-employed;
  - have no prior period of re-employment as a pensioner;
  - work for the equivalent of a year or more; and
  - contribute to the pension plan during the entire period of re-employment.

Teachers' employee wins pension award


Scott Perkin

Scott Perkin, Director of Plan Policy and corporate privacy officer for the Teachers' pension plan, has won the *Benefits Canada* Volunteer of the Year Award.

The award was presented by the magazine for Scott's outstanding contributions as president of the Association of Canadian Pension Management (ACPM), a group dedicated to the health and growth of Canada's retirement income system.

"I can think of no one in the industry who deserves this honour more," said Bryan Hocking, CEO of ACPM. ■

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

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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