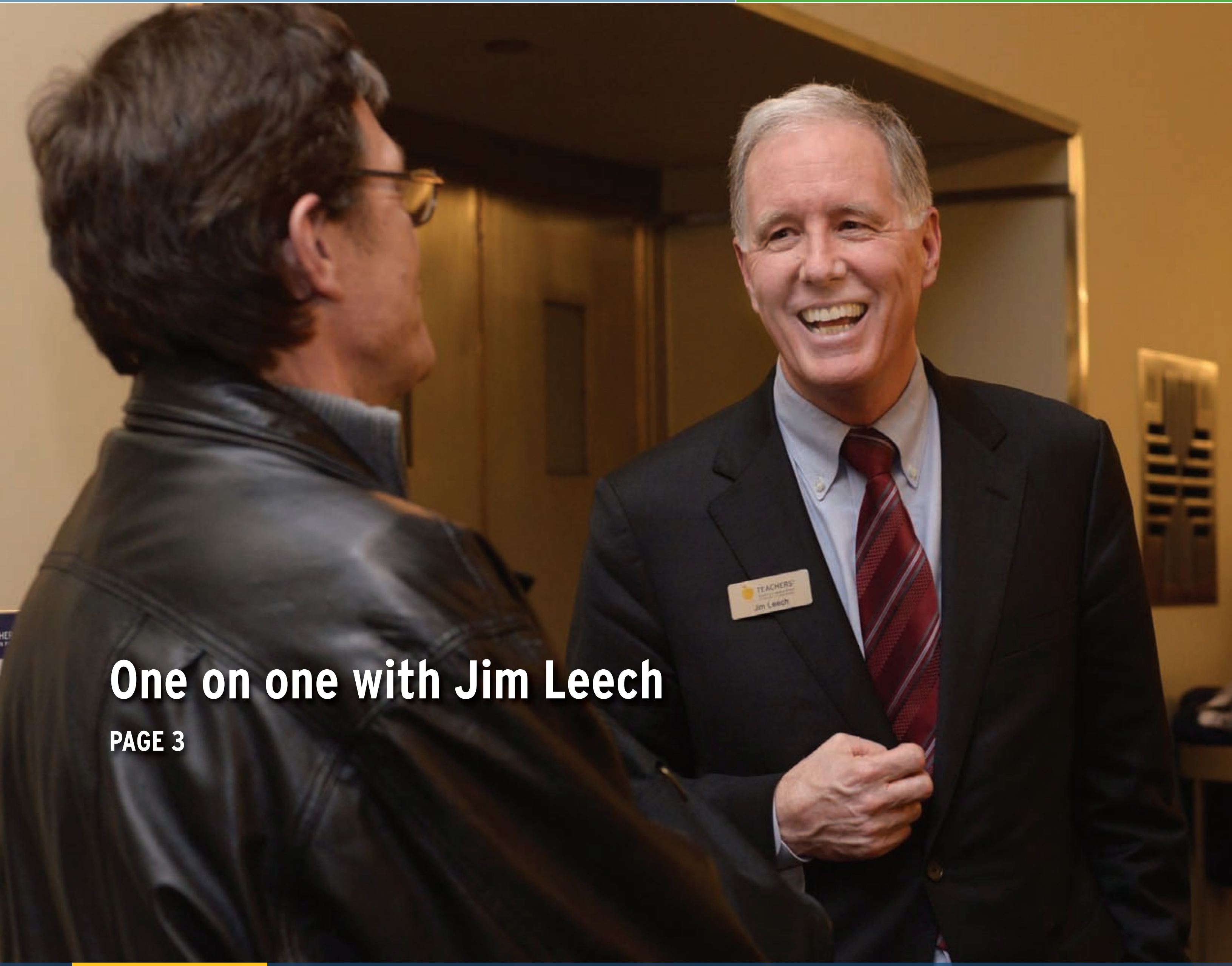
TEACHERS'™
PENSION PLAN
ONTARIO

PENSION

A NEWSLETTER FOR ONTARIO TEACHERS

SUMMER 2013



One on one with Jim Leech

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INSIDE THIS ISSUE

PLAN FUNDING FACT OR FICTION?

The debate about retirement security is alive in the media, government institutions, staff rooms and around dinner tables.

Economic headwinds that will likely persist into the next decade, and an aging population that is retiring sooner and living longer on pension, continue to pressure our plan's funding status.

In February, we resolved the 2012 preliminary funding shortfall of $9.6 billion by making inflation protection on credit earned after 2013 conditional on the plan's funding status.

This year, despite our strong investment performance, the plan projected another, albeit smaller, preliminary shortfall of $5.1 billion.

Some have suggested that a shift to defined contribution from a defined benefit plan is the solution for persistent shortfalls. We disagree. We believe an evolved defined benefit plan is the most cost-effective way to provide retirement security.

Let's take a look at some of the assumptions being made in the debate, and set the record straight on whether they are fact or fiction:

FACT: Our pension plan is still on solid financial footing.

As of January 2013, our plan is 97% funded for the long term. With $129.5 billion in assets, the pension plan has enough money to pay pensions for many, many years. There is no near-term problem; contributions to the plan plus investment income more than offset the amount paid out in pensions each year. But, pension plans are obligated to look far into the future (70 years or more) and periodically show they will have enough funds to pay future pensions to all current members. It's those long-term projections that show recurring funding shortfalls.

FICTION: Actuarial assumptions are to blame for the projection of shortfalls.

Our actuarial projections have been remarkably accurate. However, people are living longer than demographers, actuaries and the medical profession predicted. Assumptions must be reasonable and provide a plausible snapshot of the future, but nobody has a crystal ball.

FACT: The plan has always evolved over the years.

No generation of teachers has received exactly the same benefits as the one before or after it. Like everything in life, the pension plan has changed with the times since its creation in 1917. For example, inflation protection was not enshrined until the mid-70s; many of today's retirees did not have an opportunity to retire at an 85 factor or receive a 10-year pension guarantee.

FICTION: If we used a higher discount rate, we wouldn't have a shortfall.

The rate of return assumption, also called the discount rate, plays a key role in projecting whether or not the pension plan has enough assets to meet its future pension obligations. A low discount rate assumption increases the projected cost of pensions, a higher assumption lowers this cost.

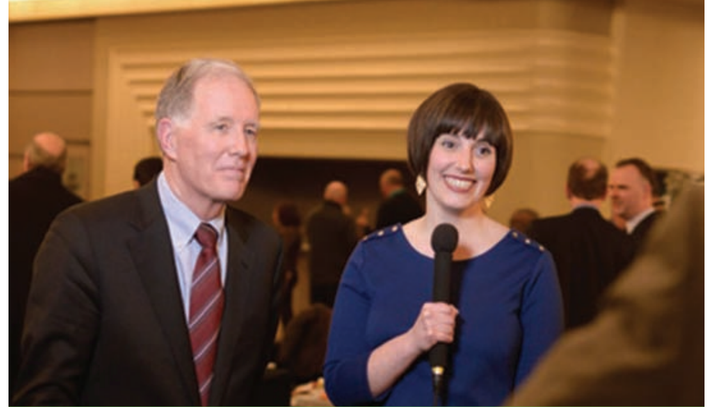
A higher discount rate is not going to change the demographic factors challenging the plan. Assuming a higher than recommended discount rate just transfers funding problems to future generations.

Independent actuaries have reviewed the discount rate we used in the last two preliminary funding valuations and found the rate was reasonable for the plan.

Want More?

*Visit **www.fundingyourpension.com** for more fact or fiction.*

ONE ON ONE WITH JIM LEECH



Vanessa Mariga, Pensionwise s editor, interviews Jim Leech, Teachers' President and CEO.

At our 2013 annual meeting, Pensionwise asked Jim Leech, President and CEO, your top questions on the 2012 results and plan funding. Here are excerpts from that exclusive interview:

PW: We heard plan leaders discuss Teachers' 2012 strong investment performance. Were there any other highlights of 2012 for you?

JL: These were really fantastic results. Our investment team was firing on all cylinders. Just as important was the performance that our member services group delivered: 9.1 out of 10 as measured by teachers. And, as we know, teachers are tough markers.

PW: Members were quite complimentary about these strong results, but they're still wondering why we have a $5.1 billion shortfall as of January this year. Can you help to rationalize that for our members?

JL: The plan is really facing two headwinds. The first is economic — low interest rates, low forecasted returns going forward, uncertainty and volatility.

The second is the demographic challenge — the aging population, and the fact that teachers are living longer on pension. Those are the two headwinds that we're facing and that's what led to the preliminary deficit at the beginning of the year.

PW: What does the $5.1 billion shortfall mean for members right now?

JL: There is nothing to be done right now. The next time that the plan has to file and determine if there is a surplus or deficit is in 2016, so there is lots of time between now and then. Investment returns can increase and economic conditions may indeed get better.

Also, there's a task force the sponsors have convened to start dealing with some of the demographic issues going forward. Active members will be surveyed to give us a sense of what they see as the best options to deal with the issues. So, we have lots of room and lots of runway until any change needs to be made.

PW: Tonight you mentioned the great debate that is raging over retirement security. A lot of our members are asking: Are defined benefit plans sustainable?

JL: In my view, and in our view, defined benefit plans are sustainable. By far, defined benefit models are the least expensive and the most effective way to provide retirement security going forward. That doesn't mean that they don't have to evolve. They must evolve to the new times, like any species or organism.

So, there will be changes. As far as I'm concerned, and if you look at the facts objectively, a defined benefit plan is still far better than a defined contribution plan.

PW: You'll be retiring at the end of this year. What have you learned about retirement during your tenure at Teachers' that you'll be applying to your own life when you take that leap?

JL: I think it's very simple. When I see our retirees, they're enjoying themselves. They've worked hard for a long time and they've contributed to our society. They deserve to enjoy retirement and I'm going to enjoy it too.

Want More?

*Visit **www.otpp.com/PensionNewsOnline** or **www.facebook.com/myOTPP** to watch the full interview.*

GOING GLOBAL

Last year Teachers' delivered strong investment results, with each department delivering returns above and beyond their respective goals for the year.

Our investment team travelled a total of 12.5 million miles around the world, the equivalent of going to the moon and back 26 times, to find the best opportunities. We made our first direct investment in South Korea, sent a trade mission to Turkey and got the green light to establish a permanent presence in Hong Kong.

Tackling the market

We bit the bait with our acquisition of ***Plano Molding Company*** in November. Based in Plano, Illinois, the company targets the fishing and fall sports markets. It's a leading manufacturer of tackle boxes, bait storage, archery cases, and ice fishing products. But it's more than just sports gear, the company also makes cases for cosmetics, tools, crafts, as well as storage containers and shelving for home and office.

Biting into dental

Our acquisition of a majority stake in ***Heartland Dental Care*** gave us something to smile about. Heartland, based in Illinois, provides practice support services to dental offices in 21 states. More than 500 affiliated dentists and their teams receive business leadership training, and support services, including administrative staffing, human resources, purchasing, marketing, administration, financial and information technology from Heartland.

Making connections

We partnered with Providence Equity, Madison Dearborn and Bell to acquire ***Q9 Data Networks***. Headquartered in Toronto, with 11 data centres across the country, Q9 is Canada's leading provider of outsourced data centre solutions for organizations with mission-critical IT operations.

A sweet (& salty) deal

We teamed up with Wind Point Partners to acquire ***Shearer's Foods***. Based in Massillon, Ohio, it's the largest manufacturer of private label salty snacks and kettle-cooked potato chips in North America.

Taking a hike

In July, we became majority owners of ***Helly Hansen Group***, the iconic Norwegian designer and marketer of high-performance outdoor apparel.

Talkin' Turkey

In November, our senior investment team travelled to Turkey. The purpose of the trip was to build knowledge of country issues, to reach out to potential long-term partners, make high-level contacts, and to start investment-related discussions.

We've done business in the country since 2006, so why are we stepping up our interest now? Our Emerging Markets Committee has pegged Turkey as a "strategic country." Here's why: the country has scaled back its military's power and is strengthening its democracy and market discipline. At the same time, a new generation of entrepreneurs and businesses looking to expand globally are ripe for investment.

We're not the only ones to recognize this great potential. Around the time of our trade mission, Fitch Ratings upgraded the country's credit rating to investment grade.

Want More?

Visit ***www.otpp.com/PensionNewsOnline***
to hear key players on our investment team discuss the deals.

Here are some highlights:

$129.5 billion in assets

13% rate of return

$14.7 billion investment income

77% of pension fund comprised of investment income since 1990

Location, location, location

In late 2012, Teachers' got the green light from its board of directors to expand our global presence and establish an investment office in Hong Kong. The new office, slated to open mid-2013, will serve as a hub for investment deal making in Asia.

The region's emerging markets are of growing importance to our fund, and present great investment opportunities. Having a physical presence in such close proximity will allow us to take greater advantage of those opportunities.

This is not the first international office we've set up. In addition to our home base in Toronto, we've also got investment offices in London (putting us closer to the European, Middle East and Africa regions) and New York.

KYOBO 교보생명

We've got Seoul

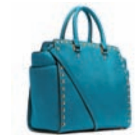
We acquired a significant stake in ***Kyobo Life Insurance Co. Ltd.***, the third-largest insurer in South Korea, in June. This acquisition marked our first direct investment in South Korea. Kyobo is the country's most profitable life insurance company. The deal, worth $400 million, expands our direct investments in Asia.

Crystal clear

Together with Hastings Funds Management, we struck a deal with Australia's New South Wales government to lease the ***Sydney Desalination Plant*** for 50 years. The deal, worth $2.3 billion, will provide Sydney-area residents with access to safe, high-quality drinking water, and the plan with stable returns for decades to come.

SYDNEY DESALINATION PLANT

HOW MICHAEL KORS PAYS YOUR PENSION



Where will you find Michael Kors and Hugo Boss?

If you guessed tony shopping malls, high street shops, or Teachers' investment portfolio, then you're correct in all three of your answers.

The luxury goods niche is one of the areas our investment teams have identified as having real growth potential. This might seem counter intuitive with reports of recessions and an unstable global market.

But, the demand for big-ticket brand names continues to climb, particularly in emerging markets. China, for example, is seeing double-digit increases in demand for luxury brands.

"We identify industries with the potential for real growth," says Neil Petroff, Executive Vice-President and Chief Investment Officer.

"Once we spot a growth industry, we identify the companies within it that are strong performers. We meet with management and develop a deep understanding of how they work. With this insight, we determine if there's a deal to be made, and what the opportunities are for even more growth. "

This approach, with its emphasis on direct investment and building relationships, is a win-win. The company that we're investing in gets access to our expertise and our global network of industry and financial contacts. And the increased shareholder value delivers greater returns for the plan.

YOU ASKED US…

You sent us your questions through email and asked them in person at our 2013 annual meeting. Two themes emerged from the questions posed: retirement security and our investment strategy.

Q: Why do you only publish investments of $100 million or more in the Report to Members?

A: We have roughly 4,500 holdings. The $100 million mark represents about 1% of the plan, which is a reasonable threshold.

Q: What is Teachers' rationale for investing in extractive and defence industries?

A: Responsible investing is our method of managing risks and opportunities so that we not only make well-informed buying decisions, but also remain effective stewards of our investments for as long as we own them.

Taking this approach means constantly re-evaluating investments against a broad range of financial and non-financial factors, including risks associated with environmental, social, and governance issues and how the investments will affect our reputation.

Q: Can the government change the plan from a defined benefit plan to a defined contribution plan?

A: As the pension plan's administrator, our role is to provide information and advice to the sponsors, the Ontario Teachers' Federation and the Ontario government. We are not able to speculate or comment on political matters.

Q: How will you continue to advocate for defined benefit plans?

A: We co-produced a documentary, Pension Plan Evolution, which clearly demonstrates the merits of an evolved defined benefit plan over a defined contribution plan. We also have an advocacy program that involves speaking at public engagements and outreach to government at both provincial and federal levels.

Q: Can I make additional personal contributions to the pension plan?

A: Our mandate and certain laws limit us to managing the existing Teachers' pension fund. While we continuously evaluate opportunities to enhance our member services, there are no plans to allow members to make personal investments or additional contributions to the plan.

Q: Can you please provide detailed examples of the real cost of future inflation protection reductions for 30 years from now?

A: We cannot extrapolate current conditions — today's interest rates and inflation protection — into the future because there are simply too many variables and unknowns.

With conditional inflation protection, the level of indexation members will receive in retirement will be adjusted periodically. The goal is to provide 100% inflation protection when possible.

Q: Will my contribution rates increase to address the shortfall?

A: The plan sponsors, the OTF and the Ontario government, reached an agreement earlier this year that froze contribution rates for the next five years at 13.1%.

Want More?

Visit www.facebook.com/myOTPP or www.otpp.com/PensionNewsOnline/YAU to watch our experts answer your questions in less than a minute. If you have a question about the plan, send it to member_communications@otpp.com.

ONLINE BRIEFS

Visit www.otpp.com/PensionNewsOnline to keep up-to-date with plan news and read exclusive content.

Buyback myth busters

Buying back credit is a big decision to make. Here are three reasons members give us when they are on the fence as to whether or not they should buy back, and our responses.

www.otpp.com/PensionNewsOnline/BuybackMyths

Retiring online

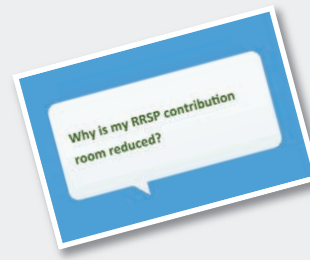
The vast majority of Teachers' members choose to retire online using *i*Access Web. Read about one member's experience, and find out how we've made the process even easier.

www.otpp.com/PensionNewsOnline/RetireOnline

Designate your spouse?

Too often we hear of members designating their spouse as their survivor beneficiary. Read an example based on the types of scenarios we see to learn why naming your husband or wife as your survivor beneficiary can have serious repercussions.

www.otpp.com/PensionNewsOnline/Spouse



You Asked Us… anytime, anywhere

Our "You Asked Us…" video series, based on our popular newsletter feature, is now available on Facebook, in Pension News Online's video section and in *i*Access Web.

Do you have a question about the plan? Check out the series. You may be able to get your answer from one of our experts in less than a minute, without having to pick up the phone.

www.otpp.com/PensionNewsOnline/YAU

Overheard on Facebook

The conversation continues at **www.facebook.com/myOTPP**. Here are some highlights:

We quizzed members on their funding knowledge. When asked if, on average, members collect a pension for more years than they contribute to it, only 38% knew that the statement is true. Members, on average, are retired for five years longer than they worked. Typically our members are working for 26 years and collecting a pension for 31 years.

Our uncut interview with Jim Leech also sparked conversation. One member noted that Jim's stance on defined benefit plans is "the only fair way to go." Others offered their congratulations on the 13% rate of return on investments achieved in 2012. One member simply commented, "I am thankful."

Two facts generated a lot of likes — in particular, the plan having 107 members over the age of 100, and March being the month with the highest number of members celebrating their 65^{th} birthday.

NEWS BRIEFS

REMINDER:

If you're close to retirement and teaching on a part-time contract, supplementing your income with an occasional teaching assignment may reduce your pension. The rate of pay for occasional teaching can be significantly less than the rate for a part-time contract. Both rates of pay are used to determine your annualized salary for the school years in which you supply teach and work on a part-time contract. Although the extra days of supply teaching increase your credit, they might reduce your average best-five years' salary and result in a smaller pension if you are close to retirement.

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

We appreciate your comments about anything you read in *Pensionwise*. Please e-mail: member_communications@otpp.com

Ce bulletin est disponible également en français.

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Retiring this year?

If you're retiring this year, we want to share this milestone with your colleagues. Here's how to participate:

- take a photo of yourself on your first day of retirement;
- send the photo to firstday@otpp.com; and
- include your name, the number of years you worked in education, and two sentences on what retirement means to you.

We'll create an interactive feature on **www.otpp.com/PensionNewsOnline**, and share your excitement with the **www.facebook.com/myOTPP** community.

Documentary spotlights global pension evolution

Pension Plan Evolution – A New Financial Reality, takes a global look at how pension plans are changing to meet economic and demographic challenges ranging from volatile markets to increasing longevity. Co-produced by Teachers' and Cormana Productions, the 23-minute film includes interviews with thought leaders from around the world addressing important pension issues. Watch the documentary, and additional commentaries from our plan leaders, at **www.otpp.com/PlanFunding**.

Natural Resources Group added to investment team roster

Earlier this year, the Natural Resources Group was formed to combine our financial exposure to commodities with direct physical investments in producing natural resource assets.

The group's broader goal is to provide the plan with superior risk-adjusted returns, diversification and protection against adverse macro-economic environments that could lead to unexpectedly high inflation. Current investments include timberlands and Canadian oil and gas assets. Potential opportunities include agriculture and mining.

Picking up Australian telecom companies

We reached an agreement to purchase 70% of three Australian telecommunications companies: Nextgen Networks, Metronode and Infoplex. The combined total value of all three is $885 million.

Nextgen manages high-speed, carrier-grade fibre network services; Metronode provides data centre and related value-added services; and Infoplex provides cloud and ICT services.

"Together these businesses provide solid revenue streams and growth upside," said Lee Sienna, Vice-President, Long-Term Equities.

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