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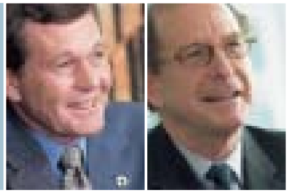
Report to members 2001

OMERS
Plan for the Future

A secure future



Walter Borthwick, left
Dale E. Richmond

Once again OMERS ended the year in a solid financial position, despite highly volatile and generally poor performance in global equity markets. Pensions remain totally secure and we continue to provide competitive benefits.

Protecting the security of your pension is always our first priority. You can be confident that your OMERS pension is guaranteed, regardless of short-term market fluctuations.

Keeping the plan secure sometimes means making tough decisions. The Board's most difficult decision in 2001 was to defer the $1.4 billion Canada Pension Plan (CPP) offset improvement and the matching employer contribution credit imposed by the government. We announced this initiative in 2000 as part of a package but the continuing negative performance of the equity markets prompted a Board review of the financial impact of these changes.

The Board decided that contributions will resume at a reduced rate in 2003 (see inside for further details). The relatively low-cost extension of the early retirement program for eligible members will go ahead as planned. We know that some members were disappointed with the deferral of the pension improvement, but the plan must ensure that both retired and active members can remain confident that their future income will be there.

Long-term investment focus □ Our investment philosophy is simple: earn long-term investment returns that meet all current and future pension obligations. In 2001 we succeeded in outperforming the markets, beating our benchmark of negative 4.2%. The fund's investment return for the year was negative 3.4%.

But OMERS long-term results, our primary investment focus, are well above the level needed to keep the plan fully funded. At 10.3%, our 10-year return is almost double the amount required to pay current and future pensions. The fund is well positioned to work through economic uncertainties over the next few years.

Moving toward autonomy □ Since OMERS creation in 1962, the Government of Ontario has had the final authority to make benefit changes. The Board believes these decisions should be made by the members and employers who pay for the plan.

This past year, at the government's direction, OMERS consulted with active members, retirees and their associations on the best way for us to achieve autonomy.

The Board will provide advice to the government on a possible governance framework in 2002. As our track record demonstrates, we already have effective governance practices in place. But we want to ensure that those who pay for the plan take charge of its future.

During the next year, we will continue to focus on improving customer service, using the Internet to build innovative delivery methods for all our stakeholders, building a dedicated call centre and improving response times. But we never forget our first priority – the financial security of our members. You can count on us to deliver a confident future.

Walter Borthwick
CHAIR, OMERS BOARD

Dale E. Richmond
PRESIDENT AND CEO

About your OMERS Plan

□ OMERS provides pension services for about 310,000 active, retired and deferred members and close to 1,000 employers. It is a defined benefit pension plan that serves local government employees, funded by equal contributions from the employee and the employer.

Your guaranteed pension is based on your salary and years of service in the plan, and it will increase each year to keep pace with inflation. In 2001, OMERS paid monthly pensions totaling more than $1 billion to 84,513 retired members and survivors – including more than 7,000 members who retired in 2001.

OMERS current contribution holiday, dictated by federal government legislation, means that active members and employers haven't had to make payments to the plan since August 1998. However, our surplus has declined and so contributions are set to begin again in January 2003, to be phased in over several years. They will start at 2.1% of salary up to $39,100 and 2.6% after that, for members whose normal retirement age is 65. For police and fire fighters, who have a normal retirement age of 60, rates will be 2.43% of salary up to $39,100, and 2.93% beyond that.

Here to serve you

□ OMERS continues to look for ways to serve you better and keep pace with the needs of our growing membership. Here are a few of the things we did in 2001:

- □ Answered 66,163 calls (an increase of 13,218 from 2000) and 4,461 e-mails (up from 3,175 last year).
- □ Hosted 370,791 visits to the website (an increase of 119,761).
- □ Met face-to-face with 10,883 members and employers.
- □ Welcomed 23,671 new members to the plan.
- □ Processed 7,346 retirement claims and improved service by cutting the time it took from 18 days at the beginning of the year to seven days by year end.
- □ Reviewed phone systems to find better ways of handling the rising volume of calls, and began the process of creating a dedicated call centre, to serve you more quickly and knowledgeably.

CONSOLIDATED STATEMENT OF NET ASSETS

Fair value ($ millions)

As at December 31, 2001

(Includes assets of other plans managed by OMERS)		
Cash and short term	$	4,374
Fixed income		9,312
Canadian equities		6,642
Foreign equities		7,452
Private placement equity		1,285
Real estate		8,181
Total Investment Assets	$	37,246
Other assets		1,012
Total Assets	$	38,258
Investment liabilities		3,565
Other liabilities		1,450
Total Liabilities	$	5,015
NET ASSETS	$	33,243

TOP 10 EQUITY HOLDINGS

Fair value ($ millions)

As at December 31, 2001

EQUITIES	
Royal Bank of Canada	379
BCE Inc.	304
Nortel Networks Corporation	297
Toronto-Dominion Bank	247
Bank of Nova Scotia	193
Canadian Imperial Bank of Commerce	188
Thomson Corporation	184
Alcan Aluminum Limited	166
Bombardier Inc.	160
Bank of Montreal	157

TOP FIXED INCOME HOLDINGS

Fair value ($ millions)

As at December 31, 2001

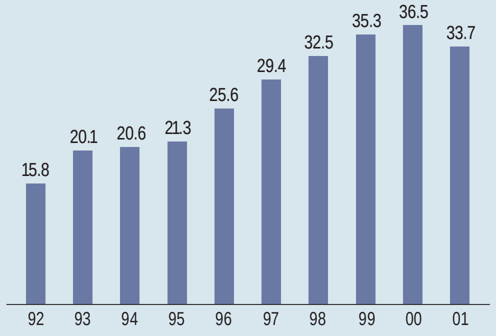
BONDS	
Government of Canada	2,960
Government of Ontario	554
Quebec Provincial Government	454
Province of Ontario Debentures	393

Quick Facts

INVESTMENT ASSET GROWTH FROM 1992

MARKET VALUE ($ BILLIONS)

Our large asset base, which has increased 56-fold since 1974, ensures we can generate the returns needed to pay pensions.

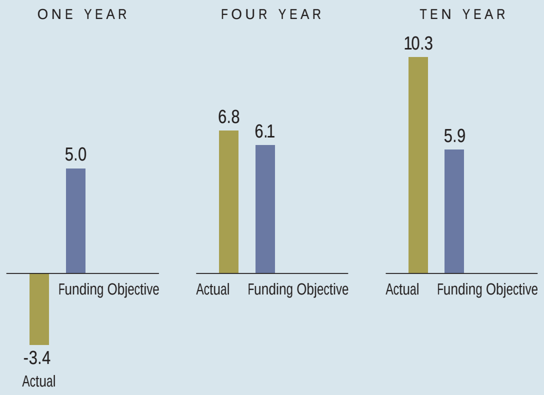


Net of investment liabilities

RETURNS VS. FUNDING OBJECTIVE

%

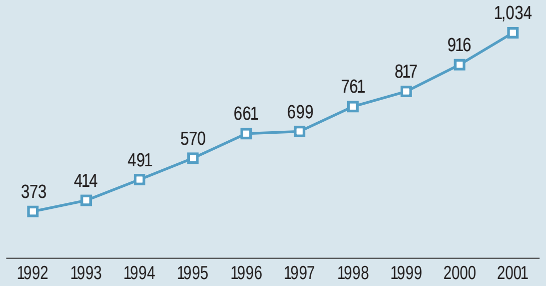
Long-term results continue to exceed our funding objective, despite a negative one-year return.



GROWTH IN PENSION PAYROLL

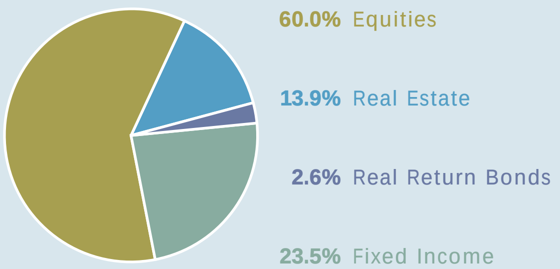
($ MILLIONS)

The pension payroll has grown substantially, a trend that will continue into the near future as the baby boom generation enters retirement.



ASSET MIX AS AT DECEMBER 31, 2001

Our diversified investment portfolio minimizes risk, generates stable returns and ensures we can keep contribution rates low.



Net of investment liabilities