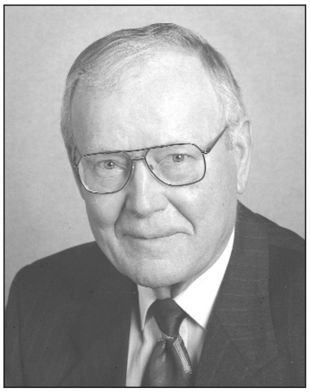
Ontario Pension Board 1999 Annual Report to Members and Pensioners



A Message from the Chairman

January 1, 2000 marks the 10th Anniversary since the establishment of the Ontario Pension Board. The Plan covers certain employees and pensioners of the Ontario government, its Agencies, Boards and Commissions.

The Plan is governed by a five member Board, composed of Ms. Debbie McKenna, Executive Officer-Benefits, Ontario Provincial Police Association; Dr. Bob Christie, Deputy Minister of Training, Colleges and Universities; Mr. William J. Fisher, retired Vice President, Chrysler Canada Ltd.; Mr. William J. Corcoran, former partner of ScotiaMcLeod, and Vice Chairman of our Board; and myself.

The Plan serves 24,304 active members, 39,621 pensioners and 2,626 deferred pensioners. We are different than almost all other plans in that we have more pensioners than contributors. All the pension liabilities are guaranteed by the government of Ontario.

The Board has the fiduciary responsibility for the administration of the Plan and the management of the investments.

The Plan is administered under the law of the Province of Ontario and regulated by the Financial Services Commission of Ontario. It is our responsibility to interpret the complicated legislation and administer it fairly for pensioners and contributors. The goal of the Ontario Pension Board is to provide the highest quality of service to members, pensioners, and sponsors at the lowest cost.

The Investment policies of the Fund are set by the full Board and are implemented by the Investment Committee, which is composed of Mr. William J. Corcoran, Chairman, Ms. Debbie McKenna, and myself. The Senior Vice President of Investments, Mr. Robert Kay, and the President, Mr. Leonard Lu, are staff members of the Committee. The investment goal of the Ontario Pension Board is to obtain a reasonable return on investments with a minimum of risk. Quality of assets and preservation of capital are foremost considerations in our investment policy.

The Fund is managed by external fund managers – Jarislowsky Fraser Limited; Jones Heward Investment Counsel Inc.; J.P. Morgan Investment Management Inc.; Perigee Investment Counsel Inc.; Phillips Hager & North Investment Management Ltd.; and Sceptre Investment Counsel Limited; under the supervision of Senior Vice President, Mr. Robert Kay. The real estate shopping centre portfolio is managed by Mr. George Buckles and Mr. Randy Scharfe of 20 Vic Management, under the supervision of Mr. Stuart Eagles.

The Board invests in bonds and equities in Canada, U.S., and Western Europe, in Ontario Government non-marketable debentures, and in Canadian regional shopping centres. It has no investments in South America, Mexico, the Far East or Emerging Markets. Our policy since inception in 1990 continues to avoid investment in derivatives.

Invested assets as at December 31, 1999 were $11.185 billion of which $3.764 billion was invested in non-marketable Ontario Government debentures; $1.845 billion in Canadian Bonds; $1.306 billion in Canadian Equities; $1.716 billion in U.S. Bonds and Equities; $863 million in European Bonds and Equities; $827 million in Cash and Short Term Investments; and $864 million in Regional Shopping Centres.

The Ontario Pension Board plans to have an actuarial valuation done as at December 31, 1999, which will be completed by mid-2000. Our expectation is that the report will show the Plan to be fully funded. This will be a historical milestone with the Plan becoming fully funded some 14 years earlier than projected at its inception.

1999 was a most difficult year for a conservative investor. The index returns tended to be dominated by technology and Internet stocks, some of which advanced spectacularly. In the U.S. market the largest 20 technology stocks accounted for all the performance of the Standard and Poor's 500 Index. In Canada three strongly rising technology stocks, Nortel Networks, BCE and JDS Uniphase, generated most of the gains on the Toronto Stock Exchange 300 Index. The other 297 stocks generated only a moderately positive return with over half of these stocks having a negative return in 1999.

In addition, as the threat of inflation in the U.S. increased, interest rates rose over 1% during the year, thus driving the market value of our bond portfolio down. So for the time being, the Fund has a lower value on its bond portfolio. This is a short-term phenomenon as the bonds will all mature at par. To date, we have never lost any money on bonds, due to a default of either an interest payment or on principal at maturity so that the present decline caused by the higher interest rates will be recovered.

Investors have been piling into technology and Internet stocks to the exclusion of others because of their apparently unlimited future growth. Many have borrowed against homes and credit cards for stock purchases. The public has committed the greater percentage of assets to the most expensive stock market in history at a time when central banks are raising interest rates. It is a high-risk game, which gives us a great concern for the future. Everyone owns the same small group of larger capitalization technology and Internet stocks.

In 1999 as a result of those market factors, the fund return was 5.37%. The return in 1998 was 13.38%, and overall for the last ten years the return has averaged 11.79% per year.

It was an exceptionally good year for our real estate portfolio, however, providing an overall return of 8.68%. We continued our policy of upgrading and expanding the properties rather than acquiring new real estate at prices which we consider to be too high.

We have five Eaton's stores in our centres and we have been fortunate in leasing three of them to Sears and one to The Bay. We have a number of interested tenants for the fifth store. I am pleased to report that The Gap has opened new stores in Halifax, Pickering, Brentwood and Lougheed malls, and have added new interest to these malls.

The Public Service Pension Plan, which is administered by the Ontario Pension Board, is indexed for inflation. Any increase in the Consumer Price Index (C.P.I.) is added to the pensioner's pension annually in January up to 8% in any one year. If inflation exceeds 8% in a year, any excess is carried forward to future years. On January 1, 2000, pensions were increased by 1.5%.

Administering the Plan met with many challenges. With whole departments of government being divested and with municipal police departments joining the Ontario Provincial Police there are a large number of members changing from one plan to another. This is resulting in a great amount of administration. Our Board's policy is that transfers between plans should be cost-neutral to each plan and that affected employees should remain whole.

Our computer outsourcing agreement with EDS Systemhouse has been in effect for one year and has worked very well. We now have in place the process to prepare the Pension Adjustment Reversals (PAR). EDS is under the supervision of the Director of Planning and Information Technology, Mr. Joe Farrugia.

The Ontario Pension Board pension administration software "PRISM" has been enhanced to facilitate the processing of buybacks, leaves of absence and other contributions related to transfers.

The Annual Pension Statement has now been improved to include additional personal information, contribution information, credited service, and pension estimates as of the Statement Date, early retirement date and the normal retirement date.

We had a number of Senior Management

appointments. Ms. Linda Bowden was appointed Vice President of Corporate Services. Following Mr. Ron Gassien's retirement, Mr. Peter Johnson was appointed Comptroller and Ms. Karen Kojima was appointed Manager of Treasury and Investment Accounting. Mr. Peter Johnson and Ms. Karen Kojima report to the Treasurer, Mr. Robert Sycamore. In the Pension Administration area, Ms. Sheila Fish was appointed Director of Member and Pensioner Services, and Mr. Robert Breens was appointed Director of Operational Policy. Ms. Sheila Fish and Mr. Robert Breens report to the Vice President of Plan Administration, Ms. Tonia Evagelou. These people are all doing excellent work in their new positions.

Board staff delivered 42 divestment and pre-retirement seminars during 1999 from Renfrew in the east to Owen Sound in the west to Sudbury in the north. During the year, 47,000 case files were completed, compared to 40,000 a year earlier. The Factor 80 option generated many requests, and with limited extension to 2002, will keep us very busy in the coming year.

In late 1999 we assumed responsibility for administration of the Ontario Provincial Judges' pension plan.

Following the passage of the Order-in-Council, setting the rules governing transfers with the OPSEU Pension Trust permitted us to settle many transfers between the two plans. We hope to finalize all transfers by mid-year 2000. We continued our efforts to put in place controls and procedures to ensure accuracy.

Our investment Custodian has been the Bank of Montreal. In 1999 the bank sold this department to CIBC Mellon. The transfer between the two banks created much extra work for us but was successfully completed on October 1, 1999.

Frank Russell ceased their portfolio verification system on December 31, 1999. This system was replaced by a combination of new procedures with the Russell's TruVP system, Fund Managers and CIBC Mellon. This change has provided the required administrative controls. We are extremely pleased with the service we are receiving from all parties involved.

Mr. Mark Fuller, who joined us as Senior Vice President, General Counsel and Secretary a year ago, has had an extraordinarily busy year and has done an outstanding job. In addition to the pension policy responsibility, Mr. Fuller spent much time in the real estate area of our business. The closure of the Eaton's stores and the subsequent leasing to Sears and the Bay made for much legal work.

Board staff have expressed to me their appreciation of the good support they have received from Management Board Secretariat staff during a time of much change.

The millennium date of January 1, 2000 has come and gone. We at the Ontario Pension Board devoted a significant amount of time and energy to making sure that all aspects of our business were "Year 2000" ready. This operation was a strong cooperative effort by all levels of Board staff, and we extend our thanks to each one of them. Dr. Bob Christie was Chairman of the Year 2000 Board Committee, which met monthly. I am delighted to report that our efforts were successful and the changeover was done without incident.

On January 1st Dr. Bob Christie, Deputy Minister of Training, Colleges and Universities, was appointed to our Board. On the same date Mr. Joseph Regan left our Board to join the Canada Pension Plan Board. We thank Mr. Regan for his service and welcome Dr. Christie. I want to thank all Members of the Board of Directors for their generous assistance.

The staff, led by President, Mr. Leonard Lu have done an outstanding job in a very busy and difficult year. They met many challenges and I thank them for their great efforts.

W.H. Somerville

William H. Somerville
Chairman

Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Surplus

As at December 31 (in thousands of dollars)	1999	1998
Assets		
Investments	$11,184,908	$10,969,384
Contributions receivable	24,984	22,777
Capital assets	678	986
Other assets	78	192
Total assets	11,210,648	10,993,339
Liabilities		
Income taxes withheld on pension payments	8,308	8,150
Accounts payable and accrued charges	6,008	3,845
Contributions payable	351	7,489
Total liabilities	14,667	19,484
Net Assets Available for Benefits	11,195,981	10,973,855
Actuarial asset value adjustment	808,746	731,760
Actuarial Value of Net Assets Available for Investments	$12,004,727	$11,705,615
Accrued Pension Benefits and Surplus		
Accrued Pension Benefits	$10,994,073	$10,903,192
Surplus	1,010,654	802,423
Total Benefits and Surplus	$12,004,727	$11,705,615

Consolidated Statement of Changes in Net Assets Available for Benefits

For the Year Ended December 31 (in thousands of dollars)	1999	1998
Increase in Net Assets		
Net investment income	$ 569,051	$ 1,309,861
Contributions	360,154	322,577
Increase in net assets	929,205	1,632,438
Decrease in Net Assets		
Pensions paid	648,923	630,241
Termination payments and transfers	46,939	55,262
Operating expenses	11,217	10,377
Decrease in net assets	707,079	695,880
Net Increase in Net Assets For the Year	222,126	936,558
Net Assets, at Beginning of Year	10,973,855	10,037,297
Net Assets, at End of Year	$11,195,981	$10,973,855

Consolidated Statement of Changes in Accrued Pension Benefits

For the Year Ended December 31 (in thousands of dollars)	1999	1998
Accrued Pension Benefits, at Beginning of Year	$10,903,192	$10,676,664
Increase in Accrued Pension Benefits		
Interest on accrued pension benefits	735,233	686,372
Benefits accrued	206,891	195,101
Total increase	942,124	881,473
Decrease in Accrued Pension Benefits		
Benefits paid	695,862	685,503
Experience gains (losses)	155,381	(30,558)
Total decrease	851,243	654,945
Net Increase in Accrued Pension Benefits	90,881	226,528
Accrued Pension Benefits, at End of Year	$10,994,073	$10,903,192

Schedule of Significant Investments*

As at December 31, 1999 (in thousands of dollars)	Fair Value	Cost
Special Province of Ontario Debentures	$ 3,553,865	$ 3,553,865
Cash and short-term investments		
Canadian		
Treasury Bills		
Government of Canada	$ 290,357	$ 291,445
Bonds		
Canadian		
Government of Canada	$ 792,742	$ 835,044
Province of Ontario	233,374	241,831
Foreign		
Federal Republic of Germany	$ 195,892	$ 226,558
Equities		
Canadian		
BCE Inc.	$ 147,085	$ 45,577
Real estate	$ 837,509	$ 814,030

* Investments with fair value or cost exceeding 1% of fair value or cost of total plan investments

Board of Directors

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Ontario Pension Board

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Vice-Chairman
Ontario Pension Board

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Ministry of Training, Colleges & Universities

WILLIAM J. FISHER
Retired Vice-President
Human Resources, Chrysler Canada Ltd.
Honourary Professor, University of Windsor
Faculty of Business Administration

DEBBIE McKENNA
Executive Officer-Benefits
Ontario Provincial Police Association

Highlights of the Public Service Pension Plan

- The Public Service Pension Plan (the "PSPPlan") is a defined benefit pension plan established under the Public Service Pension Act (Ontario), and subject to the Pension Benefits Act (Ontario) and the Income Tax Act (Canada).
- Annual pensions are calculated as 2% of the best, consecutive, 60 months average salary, multiplied by the member's number of years of credit in the PSPPlan. The pension is reduced on receipt of a disability pension from the Canada Pension Plan and at age 65.
- The PSPPlan is a fully indexed plan, which is subject to a limit of 8% inflation protection in any one year, with any excess carried forward.
- Survivor benefits are payable.
- The PSPPlan provides an opportunity to purchase service for prior employment with the Province of Ontario while not a member of the PSPPlan by paying only the employee contribution (provided that eligibility requirements are met).
- The PSPPlan currently provides an early retirement program which allows an unreduced pension benefit for those members whose age and years of credit in the PSPPlan total 80 years. This program is only available to members if they qualify prior to April 1, 2000 and elect within certain limited time frames to retire.

Member and Pensioner Statistics

As at December 31	**1999**	1998
Members	**24,304**	22,439
Pensioners	**39,621**	39,521