

2009

Report to Members
and Pensioners



Positive returns over two-year period; Plan 93% funded

2009: Growth...to deliver on our pension promise to you

The PSPP is one of the few pension plans to achieve a positive cumulative investment return over the last two years of economic and market turmoil. This success speaks to our strategies, our people and our systems – all of which have positioned us well to accomplish our goal of maintaining the financial health of the Plan for the long-term... so that we can deliver on our promise to you.

In 2008, as the global capital markets collapsed, we made the tactical decision to defer a planned move toward more equities and, instead, we raised the liquidity levels of the fund. In the first half of 2009, as the markets began to recover, we began deploying the cash accumulated in 2008 into equities. This shift continued throughout 2009.

The result?

In 2008, when pension plan losses averaged –18%, ours were –9.4%. We had preserved more than \$1 billion in asset value. In 2009, we followed with positive cumulative returns of 11.9% – resulting in an overall positive return for the two-year period. The Plan is now approximately 93% funded.

In 2009, we also continued our commitment to fiscal responsibility. We reduced overall pension administration operating expenses to well below 2008 levels, froze base pay for most members of the management team in 2009 and 2010, and reduced management incentive pay for 2009.

Our spending in 2009 focused on developing and growing our investment team, and enhancing our investment risk management framework. We also continued to make significant improvements in our service delivery to you – by introducing new online tools. These tools give you “anytime, anywhere” access to personalized buyback and pension estimate calculators.

We're pleased to share our 2009 results with you. To reduce costs and save more trees, we've shortened this *Report to Members and Pensioners*, and are offering an online-only version of our complete 2009 Annual Report, available at www.opb.ca. We'd appreciate any feedback you have about this approach and the new formats. Feedback can be submitted via email to feedback@opb.ca, or by phone at 416.364.8558 and ask to speak with the Communications department.

Your Pension. Our Promise.



Who we are

Ontario Pension Board (“OPB”) is the administrator of the Public Service Pension Plan (“PSPP” or the “Plan”) – a major defined benefit pension plan sponsored by the Government of Ontario. Our membership base is made up of certain employees of the provincial government and its agencies, boards and commissions.

With more than \$16 billion in assets, 41,298 active members, 35,829 pensioners and 3,863 deferred members, the PSPP is one of Canada’s largest pension plans. It is also one of the country’s oldest pension plans, successfully delivering the pension promise since the early 1920s.

Who we serve

OPB serves:

- PSPP members, pensioners and employers (“clients”), and
- Other key stakeholders (the Plan Sponsor, bargaining agents and taxpayers).

About your Plan

The PSPP is a defined benefit pension plan that is designed to enhance the financial security of its members. Retired members receive a pension benefit based on a pre-set (defined) formula. That formula takes into account each member’s earnings history and years of service with the Plan. To fund the pension promise, both members and employers make contributions to the Plan.

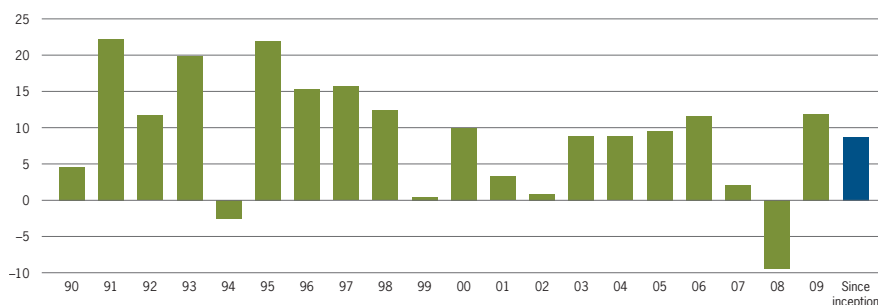
Our promise

OPB’s promise is fourfold:

1. Protect the long-term vitality of the Plan;
2. Invest the Plan’s assets to maximize returns within acceptable risk parameters;
3. Keep contribution levels and benefits reasonably stable and affordable; and
4. Deliver superior, cost-effective service to clients and stakeholders.

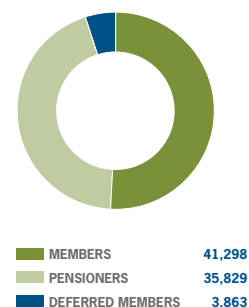
Total returns

(% per annum)



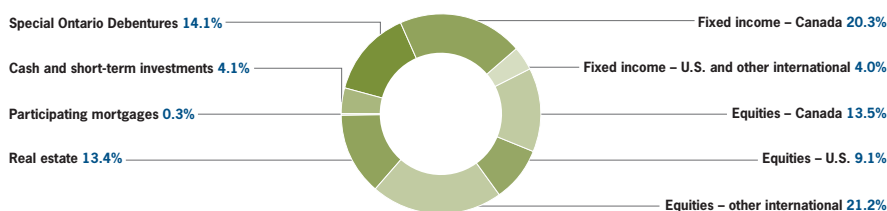
Client profile

(as at December 31, 2009)



Asset mix

(as at December 31, 2009)



Service to members

	2009	2008	2007
Telephone calls	18,872	21,154	17,996
Buyback services	5,188	3,302	1,519
Pension estimates	1,965	1,402	1,070
Presentations	165	130	104

Service to pensioners

	2009	2008	2007
Telephone calls	17,411	21,096	18,870

Maintaining confidence in our Board and management team



M. Vincenza Sera
Chair

Fiscal responsibility and accountability is, and always has been, a core value at OPB. Our team successfully managed through another challenging year. Some 2009 highlights include:

- **Astute investing** – With continued uncertainty in the investment market, our return for 2009 was 11.9%, leading to a positive cumulative return over the two-year period 2008–2009.
- **Good governance** – In 2008, we began a comprehensive and rigorous review of our procurement policies to ensure they embodied our values of transparency, accountability and efficiency, as well as providing the best results for our stakeholders. In 2009, we approved a revised corporate procurement policy that will ensure we live up to the highest standards expected of us.
- **Cost containment** – OPB had to balance cost constraint measures, introduced to deal with the economic environment, while continuing to provide service that exceeds expectations.

We also continue to live our values. In response to the economic environment, we scaled back compensation for most members of the management team. Base pay for senior management has been unchanged since 2008 and will be frozen through 2010. Incentive payments were reduced by 30% to 40% such that total cash compensation for 2009 for most members of the management team was 10% below 2008 levels. The President & CEO voluntarily returned 14% of his 2008 incentive award in recognition of the extremely challenging economic environment and its impact on our clients and stakeholders. Also, staffing levels were frozen in all areas other than the Investment area.

About the Board and management team

In 2009, we welcomed Peggy Gilmour to the Board. Peggy brings 25 years of experience in the financial services industry, a skill set that is especially invaluable during this time of increased emphasis on risk management.

2009 was Mark Fuller's first year as President & CEO of OPB. Mark provided steady leadership through a volatile year. Despite compensation cutbacks and cost containment strategies, Mark and his team remained highly motivated and proactive in moving ahead with strategies to ensure the fiscal vitality of OPB, and delivering quality service to our clients and stakeholders. The Board is unanimously supportive of Mark and his executive team as we navigate these challenging times.

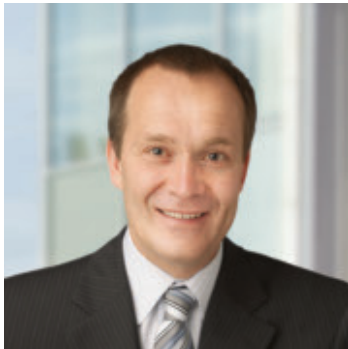
For more information about our governance structure and bios for our Board members, and to access the full version of the online 2009 Annual Report, please visit OPB's website, www.opb.ca

A handwritten signature in black ink, appearing to read 'M. Vincenza Sera'.

M. Vincenza Sera | Chair

Delivering value to our clients

“We define success as managing the Plan in such a manner that we are able to meet the expectations of each client and stakeholder over the long term. That requires consistently astute management and relentless vigilance. **There is simply no room for complacency in managing people's retirement security.**”



Mark J. Fuller
President & CEO

We deliver the greatest value to our clients and stakeholders when we steward the PSPP well through difficult periods. As our results demonstrate, we have delivered excellent value through 2008 and 2009.

These last two years have indeed been among the most difficult of times for pension plans. There were the obvious challenges – record market and economic declines in 2008 and continued high levels of uncertainty for both the capital markets and the global economy throughout 2009. Even as we entered 2010, the uncertainty remained high. There were other challenges too – persistently low interest rates, growing challenges to the defined benefit pension model, financial restraint, and high levels of criticism about financial responsibility at government agencies. Trust in the financial services industry has been severely damaged by the revelation of poor risk management practices that led to the financial crisis and ultimately the “great recession.”

Our role as stewards is to anticipate that over the long term we will continue to face challenging situations like these. Solid strategies developed in the past have helped the Plan weather the last two years. It's our job to ensure we continue to have equally effective strategies to protect the Plan against the full impact of possible future scenarios.

However, the focus cannot be just about managing risk. We need to be equally successful at anticipating opportunities and capitalizing on them for the long-term vitality of the Plan.

I encourage you to read through this summary document, as well as the full online Annual Report available on our website, www.opb.ca – you'll find answers to your most frequently asked questions and detailed information about our investment strategy, our strategic initiatives, our governance structure, and our approach to managing your pension plan. We know how important your pension is to you, so we welcome your questions and feedback – call, write or email us at feedback@opb.ca.

A handwritten signature in black ink, appearing to read 'M. J. Fuller'.

Mark J. Fuller | President & CEO



Managing risk, managing returns

Investing to meet the pension promise

A defined benefit pension plan promises to pay a specific (“defined”) benefit to retired employees at a future date. To meet this commitment, the plan must be structured to reach the right balance between contributions, investment returns and benefits. And we must do this well, year after year. The benefit of striking the right balance is that it provides for stable contribution rates and secure benefits.

Every pension plan will define this balance differently, depending on their plan demographics (e.g., the ratio of active contributing plan members to those collecting a pension, and the age profile of these groups), the plan’s investment philosophy, as well as investment principles and approach.

How do we choose investments for your Plan?

Choosing your Plan’s long-term asset mix is the most important decision our investment team makes. The right investment mix helps us achieve higher returns while maintaining a disciplined focus on risk management.

We design the investment portfolio in an effort to avoid a long-term funding shortfall, and to avoid medium-term volatility in the funded status. As a result, capital preservation is a key objective of our investment strategy. We also believe in diversification, and investing the Plan’s assets in high-quality, highly liquid equity and fixed income investments. A portfolio structured in this way tends to moderate the impact of significant market downturns on the funded status of the Plan. We saw this approach work to our advantage in 2008, as capital markets collapsed. There is a trade-off though: we are not likely to achieve the highest returns when markets rise. We believe this trade-off is in the best interest of all our stakeholders in the long term – as this approach served to protect us from the deep losses experienced by so many other pension plans in 2008.

Steady progress: our 2009 scorecard

Service improvements

WHAT WE DID	WHY WE DID IT	LOOKING AHEAD
Launched new secure online tools in the e-services section of our website: • Calculator for buyback cost estimates • Pension estimator These tools give members, “anywhere, anytime,” access to their pension information.	With the new online buyback estimator, members can see how a purchase of past service can impact their pension at retirement. The pension estimator gives members the option of selecting their preferred retirement dates and their anticipated earnings growth to generate personalized pension estimates based on their data.	We expect to introduce basic transactions (such as <i>change of address</i>) in 2010. By providing you with the ability to perform simple transactions online, staff will be able to provide more personalized, one-on-one service to you, walking you through and providing guidance on more complicated pension matters and decisions.
Automated and improved our service on the set up of survivor pensions.	Simplifies the process for a surviving spouse to receive benefits at a time of loss and stress.	Having achieved tremendous improvements in turnaround time with the automation we have already introduced, we continue to look for more opportunities to automate and improve our other client service processes. By automating elements of these processes, our staff can spend more time having one-on-one conversations with you about your pension entitlements and options.
Implemented a new automated pensioner payroll system.	This new payroll system speeds up the issuing of payments to you because it: • Improves the flexibility, efficiency and effectiveness of the monthly pension payroll run. • Enhances the ability to produce off-cycle payments.	

Protecting the Plan

WHAT WE DID	WHY WE DID IT	LOOKING AHEAD
Worked with the Plan Sponsor on the development of a formal funding policy for the Plan.	The policy establishes guidelines aimed at ensuring the Plan's assets (contributions by members, participating employers, the Plan Sponsor and investment returns) are sufficient – over the long term – to meet its pension obligations.	We will continue to work with the Plan Sponsor with the aim of finalizing this funding policy in 2010.

During 2009, while constraining costs, we continued to make progress on our strategic objectives. In particular, we focused our attention on improving the **online services** we offer you. Also, as the global economic environment began to recover, we resumed the implementation of our investment strategy.

Disciplined and astute investing

WHAT WE DID	WHY WE DID IT	LOOKING AHEAD
Resumed implementation of strategic asset allocation. We transitioned the Plan to a more global orientation.	Positions the Plan to achieve better long-term investment performance by taking advantage of opportunities in foreign markets and different asset classes.	We will continue to transition the Plan to the target strategic asset allocation.
We introduced specialty managers and strategies into the fixed income portfolio.	Enables the Plan to supplement our fixed income returns, moderate risk, and seek higher returns in non-traditional asset classes.	

Educate and advocate

WHAT WE DID	WHY WE DID IT	LOOKING AHEAD
Conducted more than 160 presentations, customized for specific member and employer groups, as well as stakeholders.	To provide you and our employers with detailed information and advice on available benefits, life event options and pre-retirement timelines.	We will continue to provide customized presentations to you that focus on your specific areas of interest or concern.
We had a major influence on pension reform with the government adopting: • Our divestment transfer solution • Our recommended changes to rules for dividing pensions on breakdown of a marriage	Helps ensure that you have a voice – and your interests are considered – as the province brings forward new pension reforms.	Our first priority is the long-term vitality of the PSPP. Our advocacy objective is to ensure that there is a secure system in place for all Ontarians to retire with adequate income.

Five-year review

(in millions of dollars)

	2009	2008	2007	2006	2005	
Opening assets	\$ 14,607	\$ 16,379	\$ 16,421	\$ 15,052	\$ 14,113	
Investment income (loss)	1,690	(1,552)	307	1,703	1,317	
Contributions	528	487	452	425	341	
Transfers from other plans	166	207	82	85	94	
	2,384	(858)	841	2,213	1,752	
Pension payments	837	810	789	766	750	
Terminations	77	71	67	56	43	
Operating expenses	34	33	27	22	20	
	948	914	883	844	813	
Closing assets	\$ 16,043	\$ 14,607	\$ 16,379	\$ 16,421	\$ 15,052	
						Cumulative since inception
Annual rate of return	11.9%	(9.4%)	2.1%	11.6%	9.6%	8.7%

For more information about the Plan's performance, please view our online version of the 2009 Annual Report on our website, www.opb.ca

Directory of key personnel

Officers

Mark J. Fuller
President & CEO

Paul Edmonds
Senior Vice-President,
Corporate Affairs, and General Counsel

Peter Shena
Senior Vice-President,
Pensions and Stakeholder Relations

Anne-Marie Thomas
Senior Vice-President, Investments

Duncan D. Webb
Senior Vice-President, Finance

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