6. Pension Obligations

A. FINANCIAL STATEMENT VALUATION

The Plan annually reviews the actuarial assumptions used in the financial statement valuation to ensure that they reflect management's best estimate of expected trends. The key assumptions used for the valuation are as follows:

	2012	2011
Rate of return on plan assets	6.50%	6.75%
Inflation rate	2.25%	2.50%
Salary increases	1% for 2013 and 2014 and 3% thereafter	3.25%

Experience losses of $121 million (2011 – experience gains $122 million) on the Plan's pension obligations are due to differences between actuarial experience and assumptions. The assumption change losses of $20 million (2011 – $99 million) on the Plan's pension obligation is due to the actuary's recommended revision of assumptions used with respect to inflation, salary, mortality, retirement and termination.

B. FUNDING VALUATION

The funding valuation is based on the modified aggregate method. This method considers a time horizon that includes accumulation of benefits and receipt of contributions in respect of current members in future periods. Generally, the actuarial assumptions used to determine the pension liabilities for funding purposes are more conservative than those used for the financial statement valuation. The funding valuation is used to identify gains or losses, which are allocated equally between members and the Government of Ontario. Gains are allocated at the discretion of the sponsors to fund benefit improvements, reduce contributions, reduce any existing funding deficiencies or are set aside in the form of rate stabilization reserves. Funding deficiencies resulting from losses are funded over a maximum of 15 years from either increased contributions or rate stabilization reserves. Pension obligations are valued using economic assumptions developed by reference to long-term market conditions.

In accordance with the *Pension Benefits Act* of Ontario and the *Income Tax Act* (Canada) and Regulations, an actuarial valuation for funding purposes is required to be filed at least every three years to estimate the Plan's gains or losses, and to determine the Plan's funding requirements. The last funding valuation filed with the Financial Services Commission of Ontario (FSCO) was prepared by Buck Consultants as at December 31, 2010. The key assumptions used for the funding valuation as at December 31, 2012 are the same as those used for the financial statement valuation, except that the assumed rate of return on plan assets is reduced by 0.25% as a margin of conservatism.

In October 2012, the Government of Ontario reached a five-year agreement with three jointly sponsored pension plans, including the OPSEU Pension Plan. During this period, the Plan is eligible for a single four year valuation filing cycle between December 31, 2012 and December 30, 2017. As such, the next funding valuation is due to be filed no later than as at December 31, 2013; OPTrust can request a one-year extension to file as at December 31, 2014. The sponsors have agreed that the contribution rate will not exceed current levels and any deficits, should they occur, will be dealt with by reducing future benefits. Accrued benefits are protected under the *Pension Benefits Act* of Ontario and cannot be reduced.

7. Rate Stabilization Reserves

For the years ended December 31 ($ millions)	2012	2011
Member fund		
Balance, beginning of year	390	398
Interest earned on funds	22	25
Use of reserves for funding deficiency	(33)	(33)
	(11)	(8)
BALANCE, END OF YEAR	379	390
Employer fund		
Balance, beginning of year	440	422
Interest earned on funds	28	28
Refund purchase of collectively bargained temporary benefits	38	23
Use of reserves for funding deficiency	(33)	(33)
	33	18
BALANCE, END OF YEAR	473	440

In order to fund the deficit identified in the December 2008 funding valuation filed with FSCO, the sponsors have directed that their respective rate stabilization reserves be drawn down by $32 million per sponsor annually until 2023. Further, for the deficit identified in the December 2010 funding valuation filed with FSCO, the sponsors have directed an additional draw down of $1 million per sponsor annually until 2025.