

# 2009 ANNUAL HIGHLIGHTS REPORT FOR PENSIONERS



**SPECIAL  
PULLOUT  
SECTION**

## **WORKING TOGETHER FOR A SECURE FUTURE**

At the OPSEU Pension Trust (OPTrust), we are here to serve you. With invested assets of \$12 billion, we manage one of Canada's largest pension funds and administer the OPSEU Pension Plan, a defined benefit plan with more than 82,000 members and retirees.

### **Our mandate includes three key objectives:**

- Generating the investment returns needed to support the Plan's pension promise
- Delivering the finest service and communications to our members and pensioners
- Ensuring that you have a real voice in your pension plan through joint trusteeship

### **2009 highlights**

- OPTrust and our sponsors implemented a proactive strategy to manage the Plan's funding shortfall caused by investment losses in 2008.
- A gradual 3% increase in contribution rates for active members and employers was recommended by OPTrust and approved by the sponsors, reducing the Plan's funding deficit by \$1.2 billion while maintaining the value of members' future pensions.
- Strong investment returns in 2009 helped reduce the Plan's remaining deficit to \$393 million at year-end.



## FUNDING HIGHLIGHTS

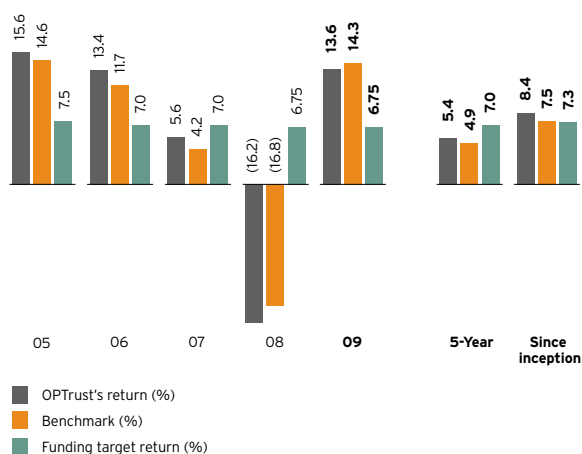
At December 31 (\$ millions)	AFTER CONTRIBUTION INCREASE		BEFORE CONTRIBUTION INCREASE
	2009 INTERIM VALUATION	2008 FILED VALUATION	2008
Net assets available for benefits	\$ 11,989	\$ 10,987	\$ 10,987
Actuarial smoothing adjustment	294	927	927
Actuarial value of net assets	12,283	11,914	11,914
Present value of future contributions	4,747	4,653	3,414
<b>TOTAL ASSETS</b>	<b>17,030</b>	<b>16,567</b>	15,328
<b>CURRENT COST OF FUTURE PENSIONS</b>	<b>16,595</b>	<b>16,353</b>	16,353
Rate stabilization funds	828	820	820
<b>SURPLUS (DEFICIT)</b>	<b>(393)</b>	<b>(606)</b>	<b>(1,845)</b>
<b>NET SURPLUS (DEFICIT)</b>	<b>\$ 435</b>	<b>\$ 214</b>	<b>\$ (1,025)</b>

## UNDERSTANDING THE NUMBERS

In 2009, OPTrust and our sponsors implemented a proactive strategy to manage the Plan's funding shortfall caused by investment losses in 2008. This strategy included capping the investment losses that were deferred, or "smoothed," for recognition in future years, and gradually raising members' and employers' contribution rates by 3% of salary, starting in 2010.

As a result, the Plan's 2008 funding valuation identified a deficit of \$606 million, which is being eliminated through payments from the Plan's rate stabilization funds. In 2009, strong investment returns helped reduce the deficit to \$393 million. Without the contribution increase, the deficit would have been \$1,845 million at December 31, 2008 and \$1,716 million at the end of 2009.

### INVESTMENT PERFORMANCE



OPTrust's diversified portfolio achieved a 13.6% return for 2009, compared to 14.3% for our weighted benchmark and the Plan's 6.75% funding target return. OPTrust's average return of 8.4% since the Plan's launch in 1995 exceeds both our benchmark and the Plan's funding target for the same period.

For more information on OPTrust's investment and financial results for 2009, please see our full annual report available at [www.optrust.com](http://www.optrust.com).

### FUNDING SURPLUS (DEFICIT)

At December 31 (\$ millions)



Despite its \$606 million funding deficit, the Plan had a net surplus of \$214 million at the end of 2008, after accounting for rate stabilization funds of \$820 million. These funds were set aside by the sponsors from past funding gains and are now being used to pay down the deficit over a maximum of 15 years.

### IN THIS REPORT

**3** Message from the Chair and Vice-Chair

**4** Investment strategy and performance

**5** Funding the pension promise

**6** Membership services

**8** Members of the Board of Trustees

# MESSAGE FROM THE CHAIR AND VICE-CHAIR

## 2009 HIGHLIGHTS

- Approved changes to the Plan's long-term asset mix to reduce investment risk while increasing OPTrust's ability to achieve our target return over time.
- Worked with OPTrust's sponsors to address the Plan's funding deficit and maintain the value of members' future pensions, while moderating the impact on contribution rates.
- Completed a strategic review of our investment program, enhancing both our governance practices and our ability to execute decisions in an increasingly challenging business environment.

## Meeting challenges, building security

The past year was one of significant challenges and opportunities for the OPSEU Pension Plan, its sponsors and our 82,000 members and retirees.

Like other major pension funds, your plan experienced a substantial investment loss in the last quarter of 2008 due to the global financial crisis. In 2009, this meant that OPTrust faced two key tasks:

- addressing the funding impact of our 2008 investment loss, and
- positioning the Plan to continue achieving long-term investment growth in the future.

As we report in this special supplement, OPTrust has made important progress on both counts. As a result, you can continue to rely on the value and security of your OPTrust pension.

## Investing for the future

In 2009, OPTrust undertook a major review of the Plan's diversification strategy. Based on our findings, the Board approved a number of adjustments to our long-term asset mix, which will be implemented over several years. These changes meet two objectives: reducing the Plan's overall investment risk and increasing our ability to meet the Plan's funding requirements over the long term.

In the meantime, the Plan benefited from a sharp rebound in public equity markets in 2009, and strong returns from our infrastructure and real return bond portfolios. As a result, OPTrust achieved an overall investment return of 13.6% for the year, more than double the Plan's 6.75% funding target. This strong performance contrasts with our 16.2% investment loss during the market downturn in 2008.

Over 2009, investment earnings helped increase the Plan's net assets to \$12 billion at year-end, up by \$1 billion from the end of 2008. Given the Plan's funding requirements, however, this one year of growth was not enough on its own to make up for our \$2.4 billion investment loss in 2008.

## Deficit management

In 2009, an initial actuarial valuation identified a total funding shortfall of \$2.7 billion as of the end of 2008, including both the Plan's funding deficit and the "smoothed" investment

losses to be deferred for recognition over the following four years.

OPTrust has therefore worked with the Plan's sponsors – OPSEU and the Government of Ontario – to implement a proactive strategy for dealing with the Plan's funding deficit. The main elements of this strategy included:

- capping the investment losses that would be deferred for recognition over 2009-2012 at \$927 million
- filing the Plan's 2008 funding valuation with Ontario's pension regulator to allow the sponsors to start addressing the Plan's \$1.8 billion deficit as soon as possible
- reducing the deficit by \$1.2 billion by implementing a gradual 3% increase in contribution rates recommended by OPTrust and approved by the sponsors
- phasing in the contribution increase over three years starting in 2010, to moderate the impact on members' take-home pay and employers' payroll costs
- drawing on the Plan's rate stabilization funds to pay down the remaining \$606 million deficit over the next 15 years.

This prudent approach will allow OPTrust and our members and sponsors to meet the Plan's long-term funding needs while maintaining the value of members' future pension benefits.

## Looking forward

We wish to express our sincere appreciation to our fellow Trustees and OPTrust's management and staff for their dedication to the interests of our 82,000 members and pensioners. We look forward to working with them and the Plan's sponsors as we continue to meet the pension promise in the coming year, and over the long term.



**Tony Ross**  
Chair



**Maurice Gabay**  
Vice-Chair



# INVESTMENT STRATEGY AND PERFORMANCE

## 2009 HIGHLIGHTS

- Investment gains helped increase the Plan's net assets to \$12 billion in 2009, up \$1 billion from the year before.
- OPTrust's diversified portfolio achieved a 13.6% return for 2009, more than double the Plan's 6.75% funding target return.
- OPTrust's Board approved a number of adjustments to the Plan's long-term asset mix, to be implemented over several years.

As an investment manager, OPTrust's goal is to generate the rate of return needed to provide you with a secure lifetime pension in your retirement. To meet this objective, the Fund needs to achieve our annual target return of 6.75% over the long term.

### Diversification

Our 6.75% target is higher than the returns normally generated by low-risk investments, such as government and corporate bonds. So, OPTrust also invests in other asset classes, including public equity (stocks), real estate, infrastructure and private equity.

These investments typically offer the higher returns that OPTrust needs to meet the Plan's funding requirements. However, they involve more risk than fixed income investments and expose the Fund to increased volatility of our returns.

OPTrust's diversification strategy is designed to manage this risk. Our approach is to select an appropriate mix of asset classes and markets, and use a diversified range of investment strategies. The goal is to meet or exceed the Plan's target return over the long term, while reducing exposure to risks affecting particular markets or asset types.

### Investment performance

Since OPTrust's launch in 1995, this strategy has served the Plan well. Over 15 years, the Fund has produced an average annual return of 8.4% compared to 7.5% for our weighted benchmark and our 7.3% target return for the same period.

Diversification also helped reduce the impact of the extreme market volatility over the past two years. In 2009, for example, a 7.1% loss in our real estate portfolio was more than offset by returns of 34.8% and 31.6% from our Canadian and foreign equities. These strong equity returns were a major factor in the Plan's 13.6% total fund return for the year.

This contrasts with the Plan's results for the previous year. In 2008, strong positive returns from OPTrust's real estate, infrastructure and fixed income investments helped limit the Plan's loss to 16.2% in a year when the global financial crisis saw major stock market indexes report losses of 30% to 40%.

### Asset mix changes

Given the importance of our diversification strategy, OPTrust carried out a major asset/liability study in 2009. This study

tested the expected performance of a range of possible changes to the Plan's asset mix and compared them to the expected growth in our pension liabilities, under different economic scenarios.

The result was a series of adjustments to the Plan's long-term asset mix. Taken together, these changes are designed to increase the probability of meeting or exceeding our funding requirements over the long term, while reducing the Plan's overall level of investment risk.

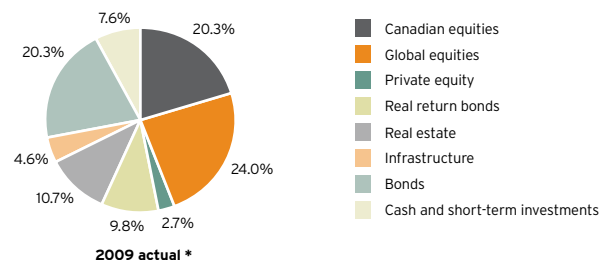
The adjustments include:

- continuing to reduce the Plan's exposure to volatile public equities, which will eventually make up 25% of the total fund
- increasing both our real estate and private equity allocations to 15% each
- continuing the implementation of our 15% target for infrastructure
- adding a 5% allocation to energy commodities
- maintaining a substantial 20% allocation to government and corporate bonds.

These changes, which continue the gradual evolution of our investment portfolio, will be implemented over the next several years.

## 2009 ASSET MIX

At December 31



In 2009, OPTrust continued to limit the Plan's exposure to volatile public equity markets, while maintaining a flexible approach to rebalancing the Fund. An increased allocation to cash and short-term investments is being used to fund further investments in real estate, infrastructure and private equity and a new energy commodity portfolio.

\* Categories include temporary cash balances.

# FUNDING THE PENSION PROMISE

## 2009 HIGHLIGHTS

- The phased contribution increase approved by the Plan's sponsors in 2009 reduced the 2008 funding deficit by \$1.2 billion.
- Strong investment returns further reduced the deficit to \$393 million at the end of 2009.
- Another \$294 million in "smoothed" investment losses will be recognized over the next four years.

OPTrust and the OPSEU Pension Plan exist to provide our members with a secure lifetime pension in their retirement years. OPTrust therefore follows a comprehensive funding policy to:

- project the long-term cost of members' and retirees' pensions, and
- manage the Plan's assets and members' and employers' contributions to meet that pension obligation.

### Shared risks and rewards

Since the Plan's launch in 1995, our funding strategy has delivered real value for OPTrust's membership and sponsors. Based on strong investment returns, the Plan has generated substantial funding gains that were shared equally between the Plan's membership and the Government of Ontario.

In their role as the Plan's sponsors, OPSEU and the Government of Ontario used these gains to eliminate the Plan's initial unfunded liability, pay for a number of permanent and temporary benefit improvements and reduce members' contribution rates between 2000 and 2004.

The sponsors also made the prudent decision to set part of these gains aside in separate "rate stabilization funds." Totalling \$828 million at the end of 2009, these funds can be used to reduce the impact of a deficit on members' and employers' contribution rates.

### Deficit management

Despite this record of success, the Plan's 2008 investment loss left the Plan with a total funding shortfall of \$2.7 billion, including both the funding deficit and deferred investment losses.

Over the past year, OPTrust worked with the Plan's sponsors to implement a proactive strategy for managing the Plan's deficit. The result was a balanced approach that:

- capped the investment losses that were deferred for recognition between 2009 and 2012
- reduced the deficit by \$1.2 billion by phasing in a 3% contribution rate increase over three years
- draws on the Plan's rate stabilization funds to pay down the remaining deficit over 15 years, starting in 2009.

With the support of the Plan's sponsors, this prudent strategy met three key objectives:

- addressing the current deficit and the Plan's long-term funding requirements
- moderating the impact on members' and employers' contribution rates
- avoiding any reduction in members' future pension benefits.

The deficit management strategy had no impact on current retirees' pensions, which are protected under Ontario pension law and will continue to increase each year to keep pace with inflation.

### Funding outlook

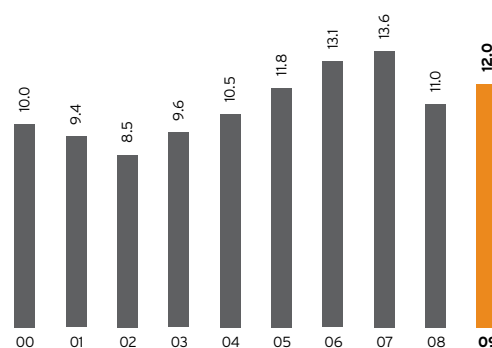
OPTrust's investment performance in 2009 helped reduce the Plan's funding deficit from \$606 million at December 31, 2008, to \$393 million at the end of 2009. The Plan's smoothed investment losses were also reduced to \$294 million at the end of 2009, down from \$927 million in 2008.

Assuming a modest recovery in the financial markets over the next four years, we expect that the Plan's rate stabilization funds should be enough to offset the balance of our unrecognized losses from 2008, without a further contribution increase.

In the meantime, you can continue to count on the value of your OPTrust pension and the secure lifetime income it provides.

## NET ASSETS AVAILABLE FOR BENEFITS

At December 31 (\$ billions)



The Plan's net assets rose to \$12 billion in 2009, up by \$1 billion from the year before. The increase resulted from investment income of \$1.3 billion for the year. This was partly offset by benefit payments and expenses that exceeded contributions by \$346 million.

# MEMBERSHIP SERVICES

## 2009 HIGHLIGHTS

- OPTrust completed 85% of cases on time, even though one in five is delayed for reasons outside OPTrust's control.
- More than 2,300 new users signed up for our secure *Online Services* site, reflecting the growing demand for online services and electronic communications.
- During the year, we provided more than 25,000 targeted e-mails and printed notices to inform members and pensioners of important pension options.

At OPTrust our focus is to provide members and pensioners with high quality service and communications to help them make informed decisions. During 2009, OPTrust continued to deliver on its commitment to provide prompt, friendly and efficient service while responding to your changing needs.

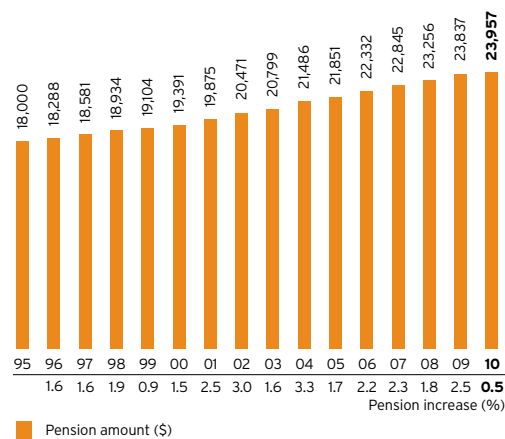


## Service standards

Over the year, our staff processed 63,151 individual transactions – from enrolments, pension transfers and buybacks to pension estimates, terminations and retirements. During the year:

- we received almost 45,000 calls from our members and pensioners, answering 98% with an average response time of just 11 seconds
- the total number of secure *Online Services* registrations grew by 9% as members and pensioners increasingly go online for personalized information and pension transactions
- we met our service targets, reducing overdue cases to less than 15% of total transactions, while limiting cases overdue by more than 30 days to less than 5%.

## INFLATION PROTECTION FOR PENSIONERS



OPTrust pensions are adjusted annually for inflation to protect retirees' purchasing power. In January 2010, payments to pensioners rose by 0.5%, reflecting changes in Canada's Consumer Price Index. A retired member who received a typical annual pension of \$18,000 in 1995 will receive \$23,957 in 2010 – an increase of 33% over 15 years.

**Brian Howard, OPTrust Retiree, Ministry of Community Safety and Correctional Services**

"I have my own RRSP, but my OPTrust pension is key to my financial security. It's allowed me to spend five summers working as a full-time instructor with the Air Cadets Summer Training Program. When I turned 65, I had to retire as a uniformed officer in the Canadian Reserves, but I'm still with the program as a civilian instructor. I'm having a wonderful time!"

## MEMBERSHIP SNAPSHOT

At December 31	2009	2008
Active members	47,316	47,850
Former members with entitlements in the Plan	1,278	1,782
Pensioners		
Current	24,758	23,686
Deferred	8,990	8,806
Total members and pensioners	82,342	82,124

OPTrust's active membership fell slightly to 47,316 at the end of 2009, down by 534 from 2008.

### Proactive services

We delivered a range of proactive services to members and retirees to help you maximize your pension and plan for the future. In 2009, OPTrust:

- sent information about CPP integration and their OPTrust pensions to more than 1,200 retirees who were nearing their 65th birthdays
- mailed pension estimates to over 9,000 members aged 55 or older
- sent e-mail and printed notices to more than 3,800 contract employees reminding them about their option to join the Plan, with almost 1,300 enrolling over the year
- provided buyback cost quotes to 1,500 new members
- sent reminders to another 3,400 members whose buyback application deadlines were about to expire and notified almost 2,000 members by telephone
- hosted 65 pension seminars and information kiosks, reaching more than 3,000 members throughout Ontario
- sent 31,125 proactive e-mails to encourage members to sign up to receive their *Annual Pension Statements* online.

### Responding to your needs

OPTrust also responded to members' and retirees' increasing demand for online service and communications. Over the year our public website received almost 285,000 visits, up from 2008, while more than 2,300 new users signed up for our secure *Online Services* site.

**Sandra Orr, OPTrust Retiree,**  
Ministry of Child and Youth Services

"While I was working, I was also planning ahead for my retirement. Knowing I would have a secure pension was a big part of that plan. Since I've retired, my pension has allowed me to focus on family issues without having to worry about money. Given how challenging the economy is, it's a relief to know I can count on my pension for the long term."

Meanwhile, OPTrust members and pensioners continued to give us high marks for the quality of service we provide. During 2009, OPTrust received more than 600 survey responses from individuals who completed a pension transaction, with an overall satisfaction rating of 8.5 out of 10, up slightly from 8.4 the previous year.

In 2010, we will continue providing quality services while exploring cost-effective options for meeting your changing needs.



## MEMBERS OF THE BOARD OF TRUSTEES

at December 31, 2009

The OPSEU Pension Trust was established to give members and the Government of Ontario an equal voice in the OPSEU Pension Plan through joint trusteeship. As sponsors, the Ontario Public Service Employees Union (OPSEU) and the Government of Ontario each appoint five Trustees to the OPTrust Board. Together, the Trustees oversee all aspects of the Plan's operations in the interests of our more than 82,000 members and retirees.

### **Tony Ross, Chair\***

Former Vice-Chair (retired)  
Merrill Lynch Canada

### **Maurice Gabay, Vice-Chair\*\***

Accountant  
Ontario Public Service Employees Union (OPSEU)

### **Michael Beswick\***

Senior Vice-President, Pensions (retired)  
Ontario Municipal Employees Retirement System

### **Scott Campbell\***

Corporate Chief Information Officer (retired)  
Government of Ontario

### **Alicia Czekierda\*\***

Secretary, Robarts/Amethyst Schools  
Ministry of Education

### **Richard Johnston\***

Owner, By Chadsey's Cairns Winery and Vineyard  
Former MPP and President, Centennial College

### **Ron Langer\*\***

Senior Business Advisor  
Ministry of Economic Development and Trade

### **Mahmood Nanji\***

Assistant Deputy Minister  
Ministry of Economic Development and Trade

### **Maureen Whyte\*\***

Claims Assessor  
Ministry of Health and Long-Term Care

\*Appointed by the Government of Ontario

\*\*Appointed by OPSEU

## HOW TO REACH US

### **OPSEU Pension Trust**

1 Adelaide Street East, Suite 1200  
Toronto, ON M5C 3A7

### **Member and Pensioner Services**

Tel: 416-681-6100 in Toronto  
1-800-637-0024 toll-free in Canada  
Fax: 416-681-6175

[www.optrust.com](http://www.optrust.com) | [email@optrust.com](mailto:email@optrust.com)

This report summarizes certain provisions of the OPSEU Pension Plan. Please note that this report does not create any rights to benefits not provided for in the actual terms of the Plan. In the event of any conflict or omission, the legal requirements of the OPSEU Pension Plan will govern in all cases.

Ce rapport est aussi disponible en français.

ISSN 1204-0458



OPSEU Pension Trust

Fiducie du régime de  
retraite du SEPTO



## GET THE BIG PICTURE

OPTrust's full annual report is available online at [www.optrust.com](http://www.optrust.com). A list of OPTrust's significant investments is also available on the OPTrust website. To order a printed copy of the annual report, please contact us.