



# Focusing on Pension Security

ANNUAL REPORT 2001



OPSEU Pension Trust

Fiducie du régime de  
retraite du SEFPO



**WITH ASSETS UNDER MANAGEMENT OF \$9.4 BILLION, THE OPSEU PENSION TRUST (OPTRUST) MANAGES ONE OF CANADA'S LARGEST PENSION FUNDS AND ADMINISTERS THE OPSEU PENSION PLAN, A DEFINED BENEFIT PLAN COVERING MORE THAN 71,000 MEMBERS AND PENSIONERS.**

**IN 2001, OPTRUST:**

**Exceeded our investment benchmark** in a year of negative returns for Canadian and international stock markets. Our investment loss of 3.5% compares favourably to the 4.4% drop in our market-based benchmark. Since 1995, the Plan has achieved an average annual return of 11.3%, outperforming the benchmark return of 10.5%.

**Increased the Plan's surplus** for financial statement purposes to record levels. Because OPTrust recognizes investment earnings over a four-year period, the Plan's strong returns from 1998, 1999 and 2000 more than offset losses in 2001.

**Improved client service** to members and pensioners. By providing more and better information about their pensions and building systems for faster and more accurate pension administration, we are responding to priorities identified by those we serve.

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## At OPTrust, pension security means:

- **generating a rate of return on investments over the long-term that supports our pension promise**
- **providing the finest service and communications to our members and pensioners**
- **giving members and pensioners a real voice in the Plan through joint trusteeship.**

What does security  
mean to you?

# 2001 Highlights

## FINANCIAL HIGHLIGHTS

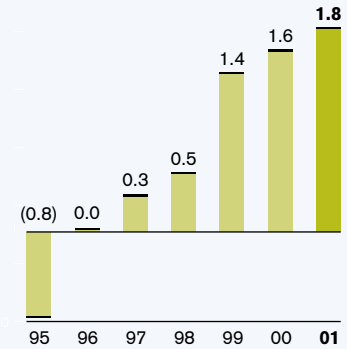
At December 31 (\$ millions)	2001	2000
Net assets available for benefits	\$ 9,426	\$ 10,002
Canadian equities	2,193	3,180
Foreign equities	3,550	2,884
Government of Ontario debentures	2,251	2,322
Marketable fixed income	860	1,059
Real return bonds and real estate	539	541
Total increase (decrease) in net assets	(576)	431
Actuarial value of net assets available for benefits	9,617	9,296
Accrued pension benefits	7,832	7,713
Surplus	1,785	1,583
<b>Total return for the fund</b>	<b>(3.5%)</b>	7.0%

## MEMBERSHIP SNAPSHOT

At December 31	2001	2000
<b>Active members</b>	<b>48,221</b>	50,993
Number of new members enrolled	4,237	3,640
Number of members terminating or retiring	5,971	4,440
<b>Former members with entitlements in the Plan</b>	<b>3,944</b>	2,906
<b>Change in total members</b>	<b>(1,734)</b>	(800)
<b>Pensioners</b>		
Current	16,282	14,711
Deferred	3,206	1,929
<b>Total members and pensioners</b>	<b>71,653</b>	70,539

## Financial Surplus (Deficiency)

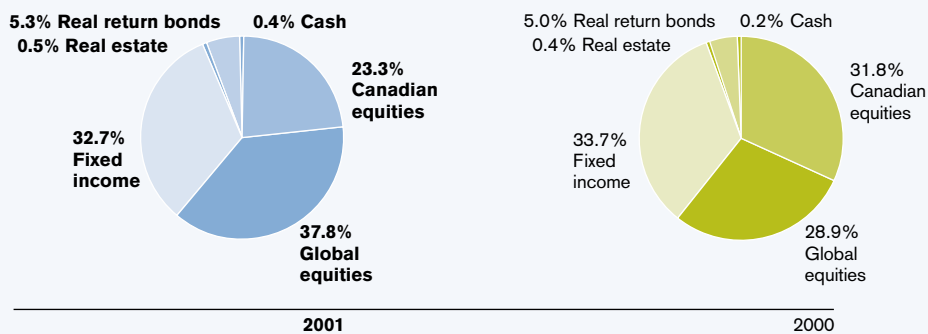
At December 31 (\$ billions)



The delayed recognition of investment earnings from previous years and experience gains for financial statement purposes contributed to the continued growth of OPTrust's financial statement surplus in 2001. While it is not a funding gain that can be used to reduce contributions or improve benefits, the surplus is an important measure of the Plan's continued strength.

### OPTrust's Asset Mix

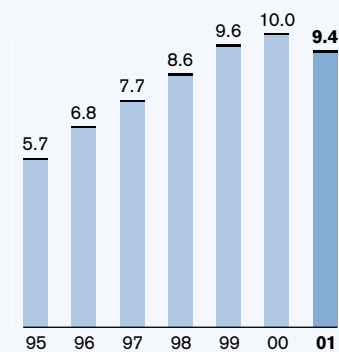
At December 31



In 2001, OPTrust improved the Plan's diversification by increasing our investment in global equities. This change reduces the Plan's exposure to risks linked to individual markets while improving the prospects for stable growth over the long term.

### Net Assets Available for Benefits

At December 31 (\$ billions)



OPTrust incurred an investment loss in 2001 for the first time since inception, reducing the Plan's net assets at year-end. Robust investment performance in previous years gave the Plan a strong asset base to weather the volatile investment markets of 2001.

# The Meaning of Security

## MESSAGE FROM THE CHAIR AND VICE-CHAIR

At the OPSEU Pension Trust, security is the touchstone for everything we do.

The OPSEU Pension Plan exists to provide a guaranteed income to more than 71,000 members and pensioners in their retirement. As Trustees, we are responsible to our members and retirees – and to the Plan’s sponsors, the Ontario Public Service Employees Union (OPSEU) and the Government of Ontario – for ensuring that this pension promise is met, now and into the future.

### A LONG-TERM PERSPECTIVE

In 2001, investors and the general public received a forceful reminder of the cyclical performance of capital investments. After several years of strong growth, share prices declined sharply on stock markets around the globe.

OPTrust’s annual return, like that of all major investors, is closely tied to the performance of the markets in which we invest. With the global retreat of stock prices in 2001, OPTrust posted an overall investment loss of 3.5% for the year. This is the first negative return since the Plan’s launch in 1995. Despite such challenging conditions, OPTrust’s return bettered that of our market benchmark, which posted a drop of 4.4%.

More significant than OPTrust’s investment return in any single year, however, is our ability to grow the fund over a much longer period. Pension plans like ours have a long-term obligation to our

members and pensioners, who look forward to decades of retirement. Since 1995, OPTrust has achieved an 11.3% average annual rate of return on investments. This strong performance allowed the Plan to significantly reduce its unfunded liability, enhance benefits, reduce member contributions and build up the reserve that was used to offset the investment loss experienced in 2001.

### A BALANCED PORTFOLIO

Diversification is essential to both the security and the growth of the Fund. In 2001, the Trustees approved a 10% increase in OPTrust’s international equity holdings, to take advantage of opportunities for broader diversification available outside Canada. This change will help moderate the Plan’s exposure to investment risks associated with individual markets and enhance the potential for growth over the long term.

An additional measure increasing the stability of the Fund is the “smoothing” of annual investment returns over a four-year period. This “actuarial adjustment” helps to cushion the impact of yearly earnings fluctuations on the Plan’s bottom line. This year, earnings held in reserve from 1998-2000 more than offset the portion of 2001 losses recognized at year-end. As a result, the 2001 financial statements show a surplus of \$1.8 billion, up \$202 million from 2000. The unrecognized balance of the investment loss from 2001 will reduce the earnings recognized over the next three years.

#### **FUNDING VALUATION**

Every three years, OPTrust is required to carry out an actuarial funding valuation, comparing the Plan’s assets to the projected cost of members’ and pensioners’ benefits. Any gains (or losses) are divided equally between the membership and the Government of Ontario. The members’ share of

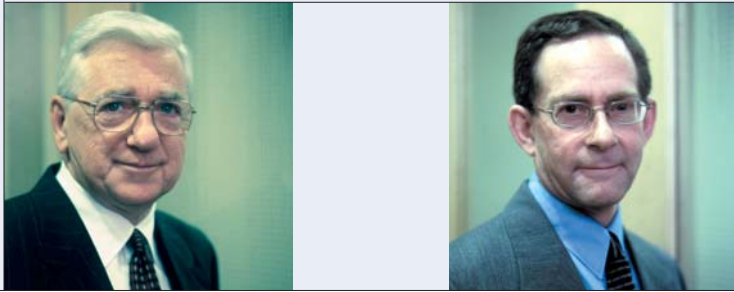
gains can be used, at OPSEU’s discretion, to lower contributions, improve benefits or set aside a contingency fund against possible future losses. The Province must first use its portion of any gains to pay down any unfunded liability it owes to the Plan. The government may then choose to use any additional amount to reduce employer contributions, improve benefits or establish a contingency fund.

In 1999, OPTrust’s most recent triennial funding valuation identified gains of \$1.334 billion. Split between members and pensioners and the Government of Ontario, these gains were used to pay for significant benefit enhancements, a three-year reduction in members’ contributions and a \$667 million reduction in the initial unfunded liability owed by the Province. As of December 31, 2001, the initial unfunded liability stood at \$63 million.

The results of our next funding valuation, covering the years 1999 to 2001, will be ready in mid-2002. The Plan’s 2001 financial statement surplus is a positive sign that gains may be available to eliminate any unfunded liabilities, reduce contributions, improve benefits or be held in reserve to stabilize future contribution levels.

#### **VERIFYING PENSION DATA**

An important milestone in 2001 was the completion of the Pension Data Purification Project (PDPP), fulfilling the Government of Ontario’s commitment to provide OPTrust with accurate pension data for all plan members. Based on PDPP’s data review, and OPTrust’s verification of recommended changes, more than 19,000 members’ records were corrected – including more than 13,000 whose credit in the Plan was increased. OPTrust can now provide members with more accurate information on their pension entitlements.



Stan Sanderson (left) is Chair of the Board of Trustees and chairs its Administration Committee. Paul Sharkey is the Board's Vice-Chair and chair of the Investment Committee.

Together with their colleagues on the Board of Trustees, Stan and Paul are responsible to OPTrust's members and pensioners for ensuring the sound investment and professional administration of the OPSEU Pension Plan. At the end of 2001, other Trustees included Bob Bellamy, Jennifer Brown, Heather Gavin, Don Jordan, Daniel Kott, David Rapaport and Tony Ross. The Board is made up of 10 Trustees, five appointed by OPSEU and five by the Government of Ontario. The Trustees serve in a voluntary capacity. At December 31, 2001, there was one vacancy on the Board, to be filled by a Government of Ontario appointee.

# Reporting to you

The completion of this multi-year project also cleared the way for OPTrust's actuaries to recalculate the Plan's original liabilities – and compare them with the assets initially transferred to OPTrust. The shortfall will be added to the unfunded liability owed by the Province. The total unfunded liability will be eliminated by a combination of direct payments to the Plan and an allocation from the Province's share of any gains arising from the 2001 funding valuation.

## **A FOCUS ON OUR CLIENTS**

For OPTrust's members and retirees, security means a pension they can count on. In 2001, the global investment climate highlighted the value of their "defined benefit" pension plan. Through their contributions, OPTrust members earn a lifetime pension based on their years of service and their best five years' average salary. Once they retire, their pensions are adjusted annually to reflect increases in the cost of living. Unlike



most RRSPs and other individual investments, the value of an OPTrust pension does not rise or fall depending on changing market conditions.

In addition to a secure benefit, members and pensioners have told us that they count on OPTrust for useful pension information and prompt, reliable service. To better meet these needs, we launched a new client-centred service model in late 2001. The results will include:

- faster, more direct telephone access to our client services staff
- more consistent follow-up on major transactions, and
- a continued focus on personal service.

We have also initiated an ongoing client satisfaction survey to help us track improvements, identify areas where we can do better, and continue tailoring services to members' and pensioners' needs.

In 2001, we redesigned OPTrust's Web site and newsletters, and launched an ongoing series of pension seminars in communities across Ontario. Through these and other initiatives, we're providing members and pensioners with better access to important pension information in a variety of user-friendly ways.

#### **CHANGES IN THE BOARD**

During the past year, the Board welcomed two new Trustees. David Rapaport is a Project Co-ordinator and Systems Analyst with the Ministry of Education in Toronto and a long-time activist in OPSEU. Don Jordan is an Occupational Health and Safety Officer with the Ministry of Labour in London, on secondment to the Ontario Human Rights Commission. Meanwhile, we said farewell and thank you to three long-term Trustees. Len Hupet stepped down after six years, including terms as both Chair and Vice-Chair. Paul Scott and Janine Johnson left the Board after serving for five and three years respectively. We also thank Jordan Berger, who served briefly in an

interim capacity on behalf of OPSEU. We are grateful to all the Trustees for their care and dedication to the interests of OPTrust's members and pensioners.

Looking ahead, we are confident of OPTrust's ability to ensure the security of the pension promise. With strong results from previous years and a prudent investment strategy for the future, the Plan is well positioned to weather short-term market volatility and achieve our growth targets over the long term. At the same time, we will continue looking for ways to serve our members and pensioners better, and respond to their changing needs.



Stanley F. Sanderson  
Chair



Paul Sharkey  
Vice-Chair

# Meeting Clients' Service Needs

For OPTrust's more than 71,000 members and retirees, pension security means two things. First, it means a guaranteed pension benefit that they can count on in their retirement. Second, it means access to reliable information and prompt, personal service that meets their immediate needs and helps them to plan for the future.

## A SECURE PENSION

In times of economic uncertainty, OPSEU Pension Plan members and retirees have an important source of financial security. As part of a "defined benefit" pension plan, they can take confidence in knowing that their earned pension benefit is guaranteed by the OPSEU Pension Trust.

By contributing to the Plan, together with their employers, OPTrust members earn the right to a pension that is based on their salary and years of credit in the Plan. Unlike many individual investments, the value of an OPTrust pension does not depend on market conditions. As long as members contribute, the value of their pension continues to grow. And once they leave the Plan and retire, their pension will keep pace with inflation.

## LISTENING TO OUR MEMBERS AND PENSIONERS

OPTrust is committed to delivering excellent client services tailored to the needs of our members and retirees. That is why we are constantly looking for ways to develop and refine the services we provide. It is also why we are always listening to the advice of the best experts – the tens of thousands of members and pensioners who contact us every year.

Since 1995, OPTrust has used a series of surveys and focus groups – as well as comments and suggestions sent in by hundreds of individuals – to gather members' and pensioners' input. In 2001, we launched a new client satisfaction survey, to measure the effectiveness of the services we provide on an ongoing basis.

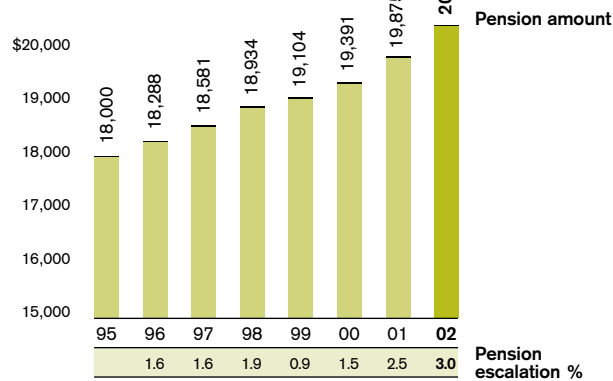
## SERVICE HIGHLIGHTS

OPTrust completed **79,444** pension transactions in 2001, a **37% increase** from the previous year.

**13,363 members** had their pension credit adjusted upward as a result of corrections to their pension data.

More than **2,200 members and pensioners** attended one of OPTrust's pension seminars, held in more than 60 communities across Ontario.

**Inflation Protection for Pensioners  
1995 – 2002**



OPTrust pensions are adjusted annually for increases in inflation. An OPTrust pensioner who received a typical annual pension of \$18,000 in 1995 would receive \$20,471 in 2002.

Through each of these channels, members and pensioners paint a clear picture of their service priorities – and how well OPTrust measures up. For example, our clients:

- value being able to speak to a real person when they contact OPTrust
- give our staff high marks for providing accurate information quickly and courteously
- appreciate prompt service
- find our newsletters, booklets and other communications useful and informative.

On the other hand, members and pensioners are less satisfied when:

- they need to deal with more than one OPTrust representative about a single issue
- it takes too long to complete complex transactions, such as buybacks and transfers.

**RESPONDING TO CLIENTS' NEEDS**

In late 2001, OPTrust launched a new client-centred approach to delivering services, in response to this input from members and pensioners. Improvements include a streamlined client service telephone line that gives callers direct, toll-free access to more than 30 client service representatives. The result will be faster service and a better use of OPTrust's resources. At the same time, we will continue our commitment to providing access to personal service from our staff.

The new client service system also improves the handling of major pension transactions. Each case is now assigned to a single OPTrust representative, who is the member's or pensioner's primary contact throughout the transaction. This will lead to more consistent follow-up on each case and better overall service for our clients.

Underlying these service enhancements is a powerful suite of pension administration software, developed by OPTrust over the past three years. This software has allowed us to increase the speed and accuracy of a wide range of operations – from enrolling new members and tracking pension contributions, through processing buybacks, terminations and retirements, to paying our pensioners promptly on the 26th of each month.

With this focus on service, OPTrust completed almost 80,000 client transactions in 2001 – up 37% from the previous year. Over the year, the number of pension estimates and quotes provided to members reached 31,655, an increase of almost 60%, from 20,011 in 2000. Throughout 2002, we will continue improving the way we serve our members and pensioners – and asking them to tell us how well we're doing and where we can improve.

## OPTRUST'S PENSION PROMISE

At retirement, OPTrust members receive a lifetime pension, based on the following

### **Pension Formula:**

#### **2% of Average Salary**

(typically the average of the highest consecutive five years' annual salary rate)

#### **times Credit**

(years of credited service in the Plan)

#### **less CPP Integration**

(a reduction at age 65)

Other important features of the Plan include:

- Inflation protection
- Survivor benefits
- Early retirement options

Related benefits for those who qualify include:

- Post-retirement health and dental coverage provided by the employer

### **ENSURING DATA ACCURACY**

Sound data on members' entitlements is the cornerstone of effective pension plan administration. In 2001, OPTrust and the Government of Ontario wrapped up a multi-year project designed to ensure that we have reliable information on every member's earned benefits. This fulfills a commitment, made by the Province when the Plan was established, to provide OPTrust with accurate service data for every member.

Of the more than 64,000 members whose records were reviewed as part of the "Pension Data Purification Project," 19,152 have had their pension credit corrected to reflect their actual service. This includes more than 13,000 who have seen their credit increased, while fewer than 6,000 members had their net credit reduced.

The completion of this project marks an important milestone for OPTrust and our members. We are now in a position to provide members with more accurate estimates of their future pensions, giving them better information to use in planning for their retirement. We also have a more reliable basis for ensuring that the Plan's funding requirements are met, increasing the security of the Plan for all members and pensioners.

### **DELIVERING BENEFITS**

Throughout 2001, members and pensioners continued to enjoy permanent and temporary benefit improvements, and a three-year contribution reduction. These enhancements were paid for with the membership's \$667 million share of gains from the Plan's 1996 – 1998 funding valuation. The changes were selected by OPSEU in its role as a plan sponsor, after a survey of members and pensioners.

The permanent improvements to the Plan:

- increased the OPTrust pension paid at age 65 by reducing the offset for Canada Pension Plan (CPP) integration
- increased the basic spousal survivor benefit to 60% of the member's age-65 pension
- eliminated the CPP offset before age 65 for pensioners who receive CPP disability benefits.

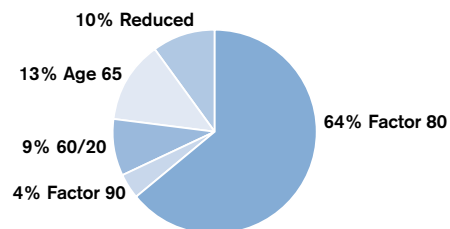
Two of the three temporary plan improvements are set to expire during 2002. These include:

- the Factor 80 early retirement provision, which ends on March 31, 2002
- the reduced member contribution rate, expiring on November 30, 2002.

A third temporary change is an improved pension reduction formula for those who take a reduced pension. This provision ends on November 30, 2004.

With a \$1.8 billion financial statement surplus at December 31, 2001, it appears likely that the next funding valuation will show gains in the Plan. The results of this valuation, covering the years 1999 to 2001, will be available in mid-2002. If gains are available, OPSEU may use the members' share to fund benefit improvements, lower contributions or set aside a fund to stabilize contributions in the future. (The provisions for allocating plan gains are described on page 28 of this report.) Any changes to OPTrust's benefits or contribution rates require an amendment to the Plan approved by both sponsors.

### Retirement Snapshot



2001

**Factor 80:** Age plus years of credit total exactly 80. Applies to members who meet criteria on or before March 31, 2002. May also include a small number of retirements under Factor 80 extension (reopener).

**Factor 90:** Age plus years of credit total at least 90.

**60/20:** Age 60 or more plus at least 20 years of credit.

**Reduced:** Pension is reduced. Available to vested members at age 55 and older who do not qualify for an unreduced pension.

**Note:** chart does not include deferred, disability or survivor pensions.



# growth

Joy Creed

Information Counsellor, JobGrow and Training Hotlines, Ministry of Training, Colleges and Universities

Member since 2000

My job is to connect individuals to Ontario's training and employment initiatives. I assess callers' needs, provide them with detailed information and put them in touch with appropriate programs and services. It's a great feeling to help people find out how to pursue their education and upgrade their skills, to become more marketable for today's workforce. I'm a people person, so I'm glad to have a job where I can make a difference.

I'm a long way from retiring, so I haven't really thought about it a lot. I know I should start saving, but as a single mom, that's not always easy. In the meantime, my OPTrust pension is a good start. It's something I can count on, and it will keep growing as long as I stay with the Government. I'm thinking of buying back my unclassified service. I know it could make a big difference down the road. The Plan's survivor benefits are important to me, too. It's an added bit of security for my daughter.

# service

Ross Harper  
Senior Benefits Analyst, OPSEU Pension Trust

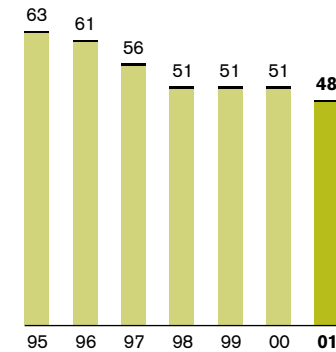
Staff member since 1998

My job is to help OPTrust members and pensioners with some of the more complex pension transactions. A lot of major pension transactions are the result of big changes in a member's life – whether it is taking a parental leave, changing jobs or retiring. Since pensions involve a lot of rules and technicalities, members and retirees can sometimes find the process confusing.

That's why it's important that OPTrust provides direct access to our client services staff, both over the telephone and through face-to-face presentations across the Province. Members and pensioners really appreciate being able to speak to a person who can answer their questions and explain the details of the Plan. As an OPTrust employee, it's gratifying being able to help resolve a problem or to provide the information they need to make a decision about their pensions and their retirement.

## OPTrust's Active Membership

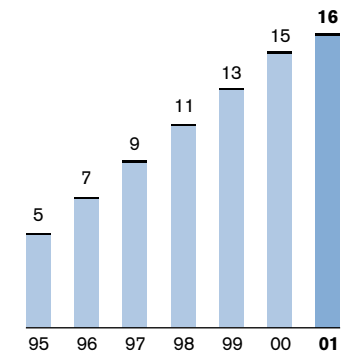
At December 31 (thousands)



The number of active members in the Plan declined in 2001 despite a record number of new enrolments. The reduction in active membership reflects the continued effect of Provincial Government restructuring.

## OPTrust's Current Pensioners

At December 31 (thousands)



The availability of Factor 80 and other early retirement options, together with the normal maturing of the Plan's membership, continues to drive steady growth in the number of OPTrust pensioners.

#### **KEEPING MEMBERS AND PENSIONERS INFORMED**

At OPTrust, we have always recognized that to make prudent decisions about their pensions and their retirement, members and pensioners need access to clear, practical information about the Plan. To meet this need, we use a variety of communications tools, from newsletters and brochures to personalized annual statements and our Web site.

In 2001, we went further, delivering a new series of pension information seminars in more than 60 communities across Ontario. In all more than 2,200 members and pensioners attended one of these sessions, learning about their pension plan and having their questions answered directly by OPTrust staff. Launched in response to requests from members and pensioners, the seminars have received consistently high marks in participant evaluations.

With more people looking to the Internet as a quick and convenient source of information, we redesigned the OPTrust Web site to provide direct access to a wide range of pension information. Key features of the site include:

- separate sections tailored to the needs of members, pensioners and employers
- a new, more powerful pension estimate calculator
- access to OPTrust's newsletters, booklets, fact sheets and other publications

- a schedule and on-line registration form for OPTrust's pension information seminars, and
- on-line access to copies of selected OPTrust forms.

In the three months following the public launch of the new site, it registered more than 13,077 unique sessions, almost three times the traffic registered in the same period a year ago.

In the past year, we also redesigned our quarterly newsletters for members (*OPTions*) and retirees (*The Pension Connection*), to make them more engaging and informative. We produced an interactive introduction to OPTrust for new members, available on CD-ROM and our Web site, to let them click through an overview of the Plan's key features. And we distributed thousands of copies of our various booklets for members and pensioners.

We also developed new ways to keep employers and their human resources and benefits staff informed about the Plan. These include an *Employer Update* newsletter and a revised *Pension Administration Manual* – both published electronically and hosted on the OPTrust Web site.

#### **OPTRUST'S CHANGING MEMBERSHIP**

The demographics of the OPSEU Pension Plan continued to change over the past year. Among the factors shaping OPTrust's membership profile are the normal maturing of the membership base, the availability of the Factor 80 early retirement option and the ongoing restructuring of public sector employment in Ontario.

In 2001, the number of active OPTrust members dropped to 48,221, down more than 2,700, despite a record high 4,237 new enrolments over the year. The number of current pensioners, on the other hand, rose by more than 1,500 to a total of 16,282 at the end of 2001. The number of deferred pensioners increased sharply in 2001, rising by 66% over the year to a total of 3,206.

#### **SUPPORTING MEMBERS AFFECTED BY WORKPLACE CHANGE**

The growing number of deferred pensioners reflects the continuing divestment of plan members whose jobs have been transferred out of the Ontario Public Service. Since 1995, more than 8,000 members have been affected by divestments, including a substantial number whose pension transactions had not yet been processed at year-end. Over the next several years, as many as 3,000 additional members could be affected by divestments that have been announced or are underway.

When a divestment occurs, members must make important decisions about their careers and their pensions. In response, OPTrust has been working to help them understand their pension options *before* the divestments take effect. As part of this effort, OPTrust delivered more than 30 special presentations to affected members in 2001. We are currently developing a new booklet for members who are involved in a divestment, for release in 2002.

If a divested member moves to a “receiving employer” that offers another pension plan, Ontario law requires that his or her previous pension credit remain with OPTrust. These “special deferred pensioners” therefore retain important rights in the Plan.

OPTrust is working to keep these former members informed about their OPTrust pensions, through our member newsletter, *OPTions*, and a special version of our Annual Pension Statement. In the meantime, we continue to monitor potential divestments and other workplace changes, to ensure members’ pension rights are protected.

## MEMBERSHIP STATISTICS

At December 31	2001	2000	1999	1998	1997	1996	1995
<b>Active members</b>	<b>48,221</b>	50,993	51,363	51,491	56,177	60,724	63,389
Female/male ratio	<b>59:41</b>	58:42	56:44	55:45	54:46	54:46	52:48
Average age	<b>44.0</b>	44.0	44.0	43.9	43.7	42.6	41.9
Average salary	<b>\$43,055</b>	\$42,017	\$42,112	\$40,646	\$40,232	\$40,600	\$39,809
Average years of credit in the Plan	<b>11.6</b>	12.0	12.2	12.4	12.3	11.6	11.1
Number of new members enrolled	<b>4,237</b>	3,640	3,882	2,854	1,737	1,055	2,070
Number of members terminating or retiring	<b>5,971</b>	4,440	3,740	4,474	6,284	3,720	1,944
<b>Former members with entitlements</b>							
<b>in the Plan</b>	<b>3,944</b>	2,906	3,336	3,066	–	–	–
<b>Net change in total membership</b>	<b>(1,734)</b>	(800)	142	(1,620)	(4,547)	(2,665)	126
<b>Deferred pensioners</b>	<b>3,206</b>	1,929	1,116	597	412	199	45
<b>Current pensioners</b>	<b>16,282</b>	14,711	12,971	11,024	9,001	7,012	4,836
Average age	<b>64.0</b>	63.0	62.0	60.0	60.0	60.0	59.9
Average annual pension	<b>\$17,963</b>	\$17,734	\$17,615	\$17,370	\$17,390	\$16,942	\$17,953
<b>Current pensioners by type of pension</b>							
Normal and early unreduced	<b>14,079</b>	12,747	11,286	9,569	7,839	6,190	4,360
Reduced	<b>1,274</b>	1,163	1,021	908	734	518	307
Eligible survivors	<b>911</b>	792	656	540	423	301	167
Disability	<b>18</b>	9	8	7	5	3	2
<b>Total members and pensioners</b>	<b>71,653</b>	70,539	68,786	66,178	65,590	67,935	68,270

\*Former members with entitlements in the Plan" includes members whose termination or divestment was unprocessed at year-end.

"Deferred pensioners" includes members whose termination or divestment has been processed and who continue to have assets in the Plan.



# Investing for a Secure Future

## INVESTMENT HIGHLIGHTS

Since 1995, OPTrust has earned an **average annual return** of 11.3%, exceeding the Plan's 7.5% funding target return and our market benchmark of 10.5%.

By increasing our investment in global equities, OPTrust has **diversified** the Plan's risk exposure while increasing opportunities for growth.

Despite an investment loss of 3.5% for 2001, OPTrust **outperformed our benchmark** in a year of challenging market conditions.

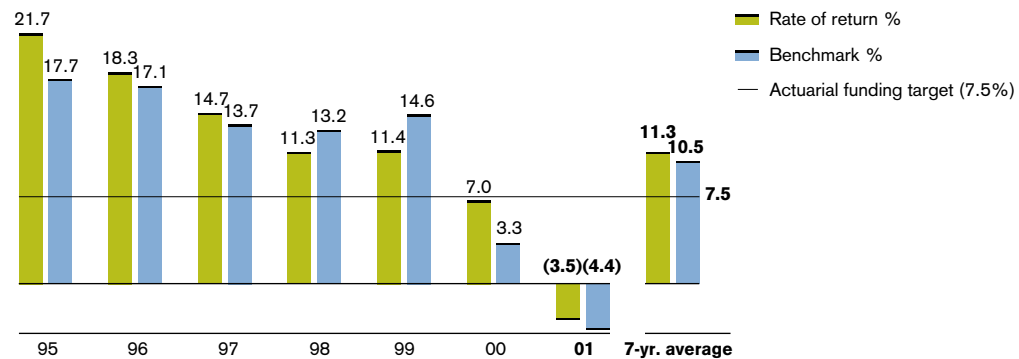
OPSEU Pension Plan members and pensioners look to OPTrust to ensure the security of their retirement incomes. Our investment goal reflects this fundamental obligation: achieving the long-term growth needed to support the pension promise, now and into the future. Actuarial studies prepared for OPTrust indicate that to meet this funding commitment, the Plan's assets must grow by, on average, 7.5% per year.

The Trustees recognize that to achieve this return objective, the Plan must assume a prudent degree of investment risk. To meet its goal, OPTrust must

invest in a diversified portfolio that includes a significant proportion of equities, as well as fixed income instruments and other assets. While they are generally subject to greater volatility than fixed income assets, equities have historically produced higher long-term returns.

By maintaining an appropriate mix of stocks, fixed income investments, real return bonds and real estate, OPTrust aims to produce the level of growth needed to meet our funding requirements, while keeping risk within acceptable limits.

### Returns vs. Benchmarks 1995-2001



Investment returns have bettered the Plan's market-based benchmark in 5 of the past 7 years. The 7-year average return exceeded both the actuarial target and the benchmark return.

A close-up portrait of Tony Carneiro, a middle-aged man with a receding hairline, smiling slightly. He is wearing a dark sweater. The background is a warm, out-of-focus orange and yellow light.

# value

**Tony Carneiro**  
Senior Specification Writer, Ontario Realty Corporation (Retired)

**Pensioner since 1999**

I worked for the provincial government for just over 22 years. I was active in OPSEU, and served as president of Local 599 for six years. I'm really enjoying my retirement. I spend time with my grandchildren every day, dropping them off at school and picking them up afterwards. They keep me very busy. I'm also involved in OPSEU's retirees' division. It's a great way to stay active in the union and to organize around issues that affect retired members.

It's important to plan ahead for retirement. My wife and I have our own investments. But even if you have an investment plan, market conditions can have a big impact. So it's good that my OPTrust pension is guaranteed and it's nice to know it will keep up with inflation. Access to health and dental benefits is also important. I think the OPSEU Pension Plan is a really valuable benefit.

## **LONG-TERM PERFORMANCE**

OPTrust's target return of 7.5% provides an important yardstick for measuring the investment performance of the Plan, particularly over the long term. However, annual investment results will vary from year to year in response to changing market conditions. For this reason, OPTrust also compares our investment returns to indices, or "benchmarks," that reflect the performance of the markets in which the Plan invests.

Since the launch of the OPSEU Pension Plan in 1995, OPTrust has achieved an average investment return of 11.3% per year, bettering the Plan's funding target return by 3.8%. The Plan's performance also compares favourably to the 10.5% benchmark return for the period. Over this period, the market value of the Plan's investments has grown from \$4.6 billion to \$9.4 billion at December 31, 2001.

## **2001 INVESTMENT OVERVIEW**

In 2001, OPTrust posted an investment return of -3.5%, marking the first year in which the Plan's investment portfolio lost value. While this result contrasts with the strong annual returns of previous years, it is not unusual for pension plans with significant equity portfolios to experience negative returns.

Like other large institutional investors, our returns are closely tied to the performance of the financial markets, which rise and fall in response to normal business cycles and particular market conditions. Approximately 61% of the Plan's assets are invested in shares of Canadian and international corporations. The declines posted by most of the world's major stock markets over the past year were therefore the central cause of the Plan's negative returns for 2001. While OPTrust's performance over the year reflected this challenging investment climate, the total return on our Canadian and global equity holdings bettered the Plan's combined market-based benchmark for equities.

Partially offsetting the negative stock returns was relatively strong, positive performance from the Plan's 38% allocation to fixed income portfolios. These types of investments tend to provide greater certainty of returns, and are subject to less price volatility over time than stocks. Their stability generally comes at a cost, however, as fixed-income and real-return assets are expected to achieve lower growth than equities over the long term. In 2001, the Plan's fixed income investments slightly underperformed the Plan's combined market-based benchmark for Canadian bonds.

#### **CANADIAN EQUITIES**

After declining significantly over the first eight months of 2001, Canadian equity markets experienced a sharp drop following the events of September 11. By the end of 2001, however,

domestic markets had partially recovered from their post-September 11 lows. On September 21, the TSE 300 Index had lost 27% of its value since the beginning of the year. By year-end, the loss had been reduced to 12.6%. The negative performance of Nortel Networks' stock was a major factor in the decline of the TSE 300. In fact, the index would have had a positive return of 1.5% for the year, excluding the impact of Nortel.

The Plan's Canadian equity portfolio performed well during the year, relative to the benchmark TSE 300. OPTrust's exposure to Nortel was well below the company's weighting in the TSE 300 index, reflecting the Plan's risk-control policies. As a result, the sharp decline in Nortel's share price had a limited impact on the Plan. Over the year, our Canadian equity portfolio returned -4.5% versus -12.6% for the TSE 300. Since the Plan's inception, the Canadian equity portfolio has produced significant positive performance, returning 11.6% per year, on average. This compares favourably to the TSE 300, which has returned 10.9% per year over the same period.

#### **GLOBAL EQUITIES**

Global equity markets also recovered somewhat by year-end, but the improvement was slight relative to the steep losses registered earlier in the year. At year-end, the MSCI World Index (excluding Canada) was down 11.6% for the year. In September, the index, which serves as OPTrust's benchmark for our non-Canadian equity portfolio, was down as much as 29%. Stock prices in the United States, Europe and Japan –

the three largest markets in which we invest – were all down significantly. The U.S. Standard & Poor's 500 Index lost 6.4% for the year, while European markets declined by 15.2% and Japan was down 24.9%.

The negative returns posted by most of the world's major equity markets were the result of a global economic environment in which virtually all of the major economies experienced slowdowns. Against this negative backdrop, the Plan's global stock portfolio returned -12.7%, slightly underperforming the benchmark return of -11.6%. Since inception, however, the Plan's foreign equities have added significant value, returning 11.4% per year, versus 10.5% for the benchmark.

#### **FIXED INCOME INVESTMENTS**

The broad bond market registered a return of 8.1% in 2001, as measured by the benchmark Scotia Capital Universe Bond Index. This strong performance was driven by a significant decline in short-term interest rates. However, while the Bank of Canada lowered short-term interest rates by 3.5% over the year, longer-term rates remained relatively unchanged. As a result, shorter-term bonds returned 9.4% while long-term bonds returned only 6%. An additional feature of the market was the strong performance of corporate bonds relative to Government of Canada bonds, reflecting renewed optimism later in the year concerning an economic recovery.

The Plan's fixed income holdings include two main portfolios: Ontario debentures, and an active bond portfolio. The Plan's Ontario debentures are passive investments, most of which mature in five to 13 years. With this high proportion of longer-term bonds, the Ontario debentures returned 8%, slightly below the returns on the broad bond market. Since the Plan's inception, there has been an overall downward trend in interest rates, resulting in strong performance from the longer-term Ontario debentures. They have generated an average annual return of 11.4% compared to the broad market return of 9.7% over the same period.

Over 2001, the active bond portfolio benefited from the strong performance of corporate bonds but was

not positioned to take advantage of shorter-term bond returns. As a result, the active portfolio, which makes up 18% of the Plan's fixed income holdings, returned 7.9%.

#### REAL RETURN BONDS AND REAL ESTATE

Because real return bonds are designed to protect against rising inflation, there is lower demand for these securities in periods of declining inflation expectations. With year-over-year Canadian inflation rates dropping from 3.2% in January 2001 to 0.7% at year-end, investors preferred conventional fixed income investments to real return bonds. As a result, real yields rose, the value of inflation protection declined, and the Scotia Capital Real Return Bond Index returned only 0.6%. The return on the Plan's portfolio was 0.2%.

While other markets experienced a turbulent year in 2001, real estate investments have performed well. The Plan's real estate holdings, although a small part of the overall portfolio, posted a healthy 9.0% return for the year, while the benchmark index returned 10.7%.

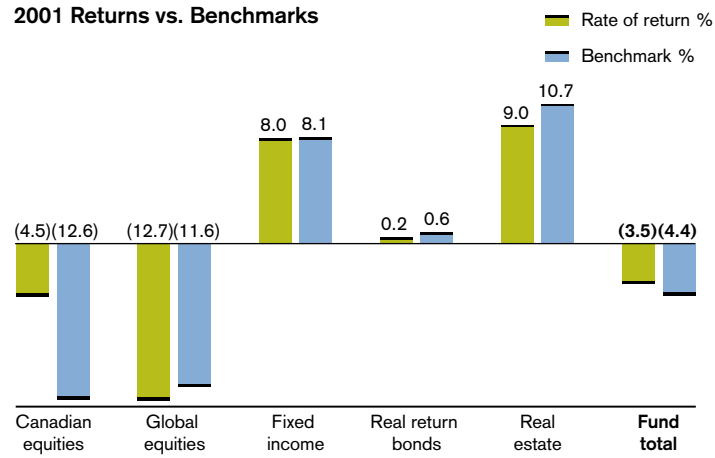
#### DIVERSIFICATION OF ASSETS

The downturn experienced by equity markets in 2001 is not unprecedented. Over time, investment markets are expected to register gains and losses in response to normal business cycles. For this reason, planning for such changes in the market environment has been a part of the Plan's strategy for managing investment risk from the outset.

Central to OPTrust's strategy is the investment principle of diversification. This principle dictates that a prudent investment portfolio that has a long-term investment time horizon should not be overly concentrated in any one asset, geographical region or industry. Investing in a diversified mix of asset types, sectors and markets increases the range of opportunities for growth, while limiting the Plan's exposure to downturns in specific sectors or regions.

In 2001, as part of a review of the Plan's risk exposures, the Trustees approved a change to OPTrust's asset mix that increased the Plan's investment in international stocks. The principal factor in this decision was the opportunity for improved diversification available in developed international markets such as the United States, Europe and Asia. For example, our foreign allocation allows us to invest in more than 1,600 corporations.

**2001 Returns vs. Benchmarks**



Negative performance in Canadian and global equities over the year was partly offset by the strong performance of the Plan's fixed income investments.

In contrast, there are only about 200 Canadian corporations eligible for investment through our domestic stock allocation.

As a result of this decision, the Plan's total exposure to foreign stocks increased by about 10% during 2001, with a corresponding reduction in our allocation to Canadian stocks. OPTrust maintains our international investment exposure while complying with federal foreign content rules through the use of eligible investment products based on Canadian dollar money market instruments.

#### **INVESTMENT MANAGEMENT**

Currently, all of the Plan's equity assets and a portion of its bond assets are managed by external investment managers. Each manager has been given a specific investment mandate. They are expected to manage their individual portfolios based on detailed guidelines set out in their investment management contracts with OPTrust. The managers and the strategies they are mandated to pursue are summarized in the table on page 20.

The monitoring and review of the Plan's investment managers is an ongoing process conducted by staff in OPTrust's Investment Division, with support from the Plan's independent consultants, James P. Marshall (Hewitt Associates). Each investment manager meets twice a year with the Investment Committee of the Board.

Pension plan sponsors and fiduciaries face an increasingly complex and challenging investment environment. In response, the Trustees have



# performance

**Grace Hwang**  
Portfolio Performance Analyst, OPSEU Pension Trust

Staff member since 1999

As part of OPTrust's Investment Division, my role is to monitor how our external investment managers invest the Plan's assets. This helps us ensure compliance with the investment policies set by OPTrust's Board of Trustees. I also track the market value of OPTrust's portfolio on an ongoing basis, and compare our results with the performance of our market-based benchmarks. It's been a challenging year for investors, but OPTrust managed to outperform our overall investment benchmark for 2001.

It's a big responsibility knowing that more than 71,000 members and pensioners rely on OPTrust for their retirement incomes. That's why the focus in the investment area is on achieving long-term growth to pay for member's pensions, while keeping risk within acceptable limits. Since 1995, we have had an average return of 11.3%, adding to the security of the Plan.

approved significant enhancements to the Office of the Chief Investment Officer, which began in 2001. Central to these enhancements is the development of an internal investment system to provide daily analysis and monitoring of investment performance and risk management. Additions to Investment Division staff will enhance our ability to both analyze and optimize the Plan's assets.

#### PROXY VOTING

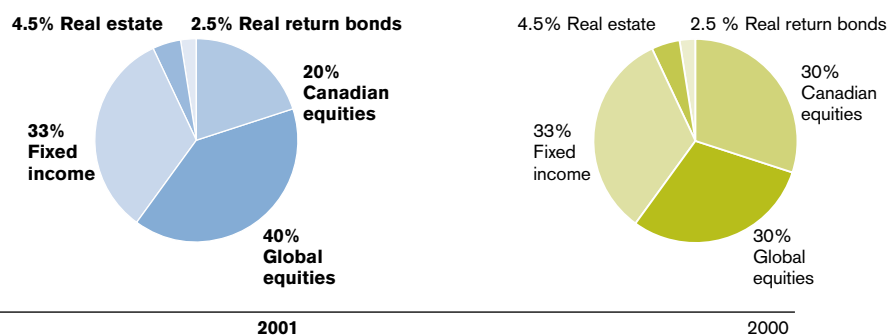
The purchase of a share brings with it ownership obligations – and the right to vote on issues affecting the company in which OPTrust has invested. As part of our fiduciary duty to our members and pensioners, OPTrust exercises the right to vote our shares. Stock ownership rights, including proxy voting, are financial assets that must be managed with the same care and diligence as any other asset, because the integrity and value of the stock may be affected by the outcomes of voting proposals.

This year, in order to manage the increasing volume of proxy votes effectively, OPTrust hired an outside firm to research and vote our proxies. The voting fiduciary is expected to vote OPTrust proxies in accordance with predetermined guidelines approved by OPTrust's Board of Trustees. The Trustees have reviewed and revised these guidelines to reflect research on various topics and to cover a broader range of voting issues. The proxy voting guidelines address such issues as the appointment of auditors and directors, approval of compensation plans and stock option programs, approval of mergers, and social or ethical topics of interest to shareholders.

#### INVESTMENT MANAGERS AND STRATEGIES

	Manager	Strategy	Focus
Canadian equities	TD Asset Management	Quantitative	TSE 300 index
	Beutel Goodman & Co.	Active	Individual security values
	J. R. Senecal & Associates	Active	Market themes or sectors
	Guardian Capital	Active	Individual growth securities
Global equities	Barclays Global Investors	Quantitative	Synthetic index of global securities
	State Street Global Advisors	Quantitative	Index of global securities
	Gartmore Investment Management	Active	Country or sector with growth potential
	Lazard Asset Management	Active	Individual security values
Fixed income	Phillips, Hager & North	Active	Interest rate trends and corporate-government mix
	Investment Management		
Real estate	Penreal Capital Management	Active	Good quality tenanted commercial/office space in Canada
	Beutel Goodman Real Estate Group	Active	

#### Asset Mix Target



In 2001, the Trustees approved an increase in the Plan's exposure to global equities to take advantage of the opportunity for improved diversification available in the U.S., European and Asian markets.

# Managing Risk

OPTrust safeguards the interests of our members and pensioners by managing potential risks affecting the Plan.

Our comprehensive risk management program focuses on three key areas of exposure:

- **investments**
- **operations**
- **liabilities**

As part of the OPSEU Pension Trust's focus on security for our members and pensioners, we take a systematic approach to risk management.

Anticipating risk and taking appropriate steps to limit the Plan's exposure helps us ensure that members and retirees can count on OPTrust to provide a secure lifetime pension and a high level of service and integrity. At OPTrust, we pursue a results-oriented risk management program, focusing on three key areas: investments, operations and liability risk.

## **INVESTMENT RISK**

OPTrust's Statement of Investment Policies and Procedures sets out a comprehensive approach to managing investment risks. This document addresses a variety of risk factors, including the diversification of assets, investment management styles, liquidity and creditworthiness.

The OPSEU Pension Trust uses a range of strategies to mitigate investment risk. These include:

- diversifying our investments geographically and across a wide range of investment types
- using both active and index-based management strategies
- requiring high credit standards for bond issuers
- limiting the amount of exposure/concentration in any one entity (or group of related entities) and the proportion of securities of any one entity that OPTrust can own
- ongoing forecasting of potential cash needs, and the cash flow or securities available to meet those needs
- establishing and monitoring adherence to high standards of business conduct for all business partners
- commissioning independent research on potential areas of investment and comparing OPTrust's track record to that of other pension plans in areas such as investment costs.

Specific types of investment risks are discussed separately in Note 4 to the financial statements included in this report.

**OPERATIONAL RISK**

The Board of Trustees has responsibility for establishing policies and implementing procedures designed to manage operational risks. The Trustees have delegated administrative authority to OPTrust's management, and have established reporting and other accountability processes to achieve results.

OPTrust monitors and takes steps to control risk in all of its key activities. Operational risk is managed by establishing a wide range of safeguards. These include: the execution, monitoring, reporting and assessment of procedural controls; segregation of incompatible duties; systems testing; data back-up systems; adequate insurance; staff training; surveys of members and pensioners to gain their assessment of service; and contingency plans to maintain services in the event of potential disruptions.

OPTrust has put in place a program, reporting to the Audit Committee, to systematically review areas of significant potential risk in its operations, address potential concerns, incorporate best practices and ensure sound change management. We design and evaluate our risk safeguards with the assistance of external risk management specialists.

**LIABILITY RISK**

The management of liability risk focuses on ensuring that estimates of future obligations for pension entitlements are sound. Since investment strategies are designed to fund these obligations, significant differences between estimated and actual obligations could lead to funding shortfalls. OPTrust's liability risk management activities are designed to minimize this risk.

OPTrust conducts and files funding valuations of its pension obligations once every three years. The next valuation, for the three-year period ending December 31, 2001, will be completed by mid-2002. In addition, OPTrust has a multi-year plan for the completion of comprehensive actuarial studies on plan experience to test the reasonableness of long-term actuarial assumptions. We also conduct annual interim valuations based on current data, to monitor trends and ensure that decisions affecting the Plan are based on accurate information regarding its liabilities.

In 2000, experience studies focusing on termination, retirement and mortality patterns, inflation rates and investment rates of return, and salary development were completed and adopted by the Board of Trustees. In 2001, an interim valuation as of December 31, 2000, was carried out to further test the Plan's revised assumptions against the development of actual experience. The 2000 data are reflected in the 2001 financial statements, ensuring greater accuracy in the reporting of accrued pension benefits.



# Financial Overview

## FINANCIAL HIGHLIGHTS

The OPSEU Pension Plan's **financial statement surplus** reached \$1.8 billion in 2001, adding to the security of the Plan despite negative returns for the world's equity markets.

OPTrust incurred an **investment loss** of \$359 million for the year, compared to net investment income of \$654 million in 2000.

**Investment reserves** from previous years and **actuarial gains** for financial statement purposes more than offset the decline in net assets, resulting in a \$202 million increase in surplus.

OPTrust's members, pensioners and sponsors have two tools for measuring the continuing strength of the OPSEU Pension Plan:

- The financial statements describe OPTrust's financial position as of December 31, 2001, and report on key indicators of the Plan's health. These include the Plan's net assets, the "actuarial value" of these assets after the smoothing of investment returns, the anticipated cost of members' and pensioners' accrued benefits, and the Plan's financial surplus. The growth of the financial statement surplus to \$1.8 billion, despite an investment loss of \$359 million in 2001, testifies to the continued security of the Plan.
- A second gauge of the Plan's strength is its funding valuation. Carried out every three years, this valuation determines the Plan's funded status, and whether there is a funding gain that may be used by the sponsors to improve pension benefits or moderate or reduce contributions. The results of OPTrust's next funding valuation – for the years 1999 to 2001 – will be available in mid-2002.

Both the financial statements and the funding valuation rely on actuarial assumptions concerning the growth of the Plan's assets and the future cost of members' and pensioners' benefits. Because the funding valuation can affect benefit and contribution levels, it relies on more conservative actuarial assumptions, in order to safeguard the security of the Plan.

As a result, while the financial statements offer an important leading indicator of the possible funding valuation results, the financial surplus tends to be higher than the amount of any funding gains.

### NET ASSETS AND ACTUARIAL "SMOOTHING"

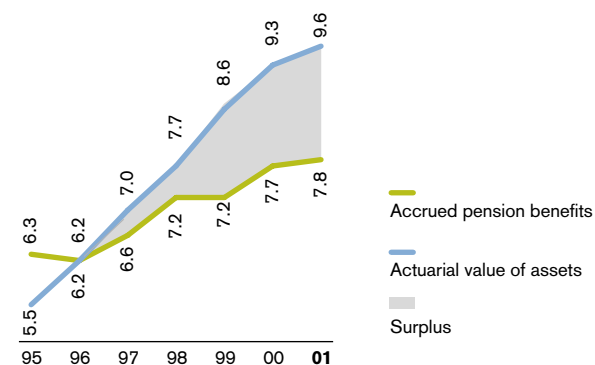
In 2001, the Plan's net assets available for benefits dropped by \$576 million from the previous year, to \$9,426 million at year-end. This decline resulted from investment losses and benefit payments. However, the change in the actuarial asset value adjustment of \$897 million more than offset this decrease. As a result, the actuarial value of net assets available to fund pension benefits increased by \$321 million, to \$9,617 million at December 31, 2001.

The actuarial asset value adjustment is used to cushion the Plan against significant fluctuations in annual investment earnings. This is done by holding each year's investment gains or losses in a "reserve," to be recognized over a four-year period. This "smoothing" helps provide a more stable funding base for the Plan's long-term pension obligations.

In 2001, smoothing resulted in the recognition of a portion of the strong investment income from the prior three years, while part of the 2001 loss was held back to be recognized in future years. The total value of the smoothing reserve changed from a deferred gain of \$706 million at the end of 2000, to a deferred loss of \$191 million at the end of 2001. This deferred loss will be recognized – and will reduce surplus – in future years.

### Actuarial Assets, Accrued Benefits and Surplus

At December 31 (\$ billions)



The financial statement surplus continued to grow in 2001, despite the reduction in the net assets. The recognition of smoothed investment income from prior years more than offset current year losses, increasing the actuarial value of net assets, while experience gains slowed the growth in accrued benefits.

### ACCRUED BENEFITS

OPTrust's accrued pension benefits represent the actuarial present value of the benefits owed to plan members and pensioners. At year-end, accrued pension benefits were valued at \$7,832 million, up \$119 million from 2000. Normal growth in the Plan's accrued pension benefits of \$436 million was offset by a \$317 million reduction to reflect experience gains, identified in a review of the Plan's liabilities as at December 31, 2000.

### SURPLUS

The Plan's financial statement surplus grew by \$202 million over the year, driven by the increase in the actuarial value of net assets due to smoothing, coupled with the \$317 million in experience gains. Together these factors outweighed the impact of the normal increase in the accrued pension benefits and the recognized investment loss for 2001. At December 31, 2001 the surplus stood at \$1.8 billion – its highest level in the Plan's seven-year history.

With a significant surplus position, the Plan will be able to absorb some continued negative investment returns without affecting normal contribution rates. OPTrust requires investment returns of 7.5% (4% after inflation) over the long term to maintain its normal contribution rates. Since inception, the Plan has earned 11.3% (9.6% after inflation). This has

allowed the Plan to significantly reduce the initial unfunded liability, fund temporary contribution reductions and provide permanent and temporary benefit improvements for members and pensioners. In addition, OPTrust has built up reserves against years of poor investment performance, such as 2001.

### CHANGES IN NET ASSETS

Annual cash flows reflect the use of investment income and contributions from members and employers. These are used to fund payments to pensioners, other benefit payments to or on behalf of terminating members, and operating expenses.

### Net investment income

OPTrust incurred a net investment loss of \$359 million during the year, compared to earnings of \$654 million in 2000. This negative return reflected the performance of the Plan's Canadian and global equity portfolios during a year of sharp declines on the world's major stock markets.

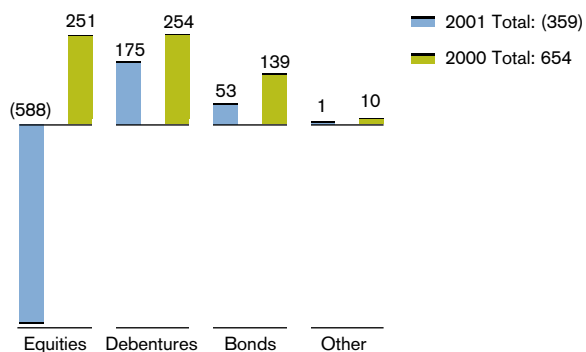
### Contributions

Regular contributions totalled \$181 million in 2001, down slightly from \$192 million in 2000, as a result of a reduction in the number of contributing members. Over the year, OPTrust received payments totalling \$40 million from the Government of Ontario, to reduce the unfunded liability.

## VALUE OF INVESTMENT ASSETS

At December 31 (\$ millions)	2001	2000
Canadian equities	2,192	3,184
Global equities	3,546	2,884
<b>Equities (combined)</b>	<b>5,738</b>	6,068
<b>Real return</b>		
bonds and real estate	537	538
Marketable fixed income	854	1,052
Ontario Government debentures	2,243	2,314
<b>Fixed income</b>	<b>3,097</b>	3,366
<b>Fund total</b>	<b>9,372</b>	9,972

## Net Investment Income (\$ millions)



The Plan's investment income for 2001 reflects the sharp declines experienced by Canadian and international stock markets.

# investment

## Dale Abel

Staff Interpreter, Sir James Whitney School for the Deaf, Ministry of Education

Member since 1990

We have about 100 students at the school, from kindergarten to the OAC level. We have two languages of instruction: American Sign Language (ASL) and English. My job is to work with staff, students and their families whenever a deaf person or a hearing person requests an interpreter to help with communication. That can mean interpreting in meetings or in the classroom. The idea is to help people in their first language, whether it is English or ASL.

As a contract – or “seasonal unclassified” – employee, I didn't have to join the pension plan when I started at the school, but it seemed like a good investment in the future. Now, I'm even more convinced it was the right thing to do. My OPTrust pension is the most important part of my retirement plan. I was very pleased when the OPSEU Pension Plan was created. It matters to me that my union is a sponsor of the Plan and is keeping on top of how it is invested and administered.

# strength

Hernan Maldonado  
Laboratory Technician, Engineering Standards Branch, Ministry of Transportation

Member since 1975

My job is to analyse the composition and test the safety and skid-resistance of paving materials used on Ontario's highways. We use a machine that simulates the polishing effect of three years of traffic in six hours. This lets us test whether the material will continue to provide good traction under use. I enjoy a job that demands a high level of professionalism. The results of our work have a direct impact on road safety.

My pension is very important to me. The economy can be uncertain, so it's good to know that my pension is guaranteed – and that it will be protected against inflation. I expect to retire sometime in the next five years, so I contacted OPTrust for a pension estimate. This information is helping me plan ahead and consider my options. I'm glad that we have such a strong pension plan.

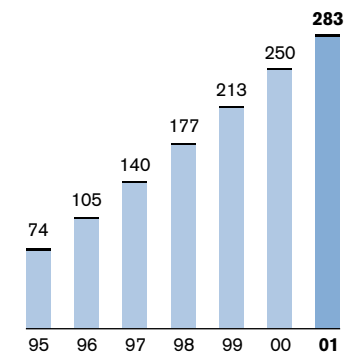
## Pension payments

OPTrust's pensioner population continued to grow in 2001, generating a 13.2% increase in pension payments, which totalled \$283 million compared to \$250 million in 2000. At year-end, OPTrust had 16,282 current pensioners. The Factor 80 early retirement provision has been a significant element in the rapid growth in the number of pensioners. Factor 80 is set to expire on March 31, 2002.

## Terminations and transfers

Refunds and transfers out of the Plan decreased to \$145 million in 2001 from \$202 million in 2000. In 2000, OPTrust made more payments from the Plan, clearing up many outstanding transfers, particularly to the Ontario Pension Board.

**Pension Payments**  
(\$ millions)



Pension payments continued to increase in 2001 as eligible members chose to retire early under provisions such as Factor 80.

### Administrative expenses

Administrative expenses totalled \$19.7 million in 2001 compared to \$17.9 million in 2000. The increase reflects OPTrust's continued focus on systems development, and excellent staff and communications programs to more effectively serve members and pensioners.

### ACTUARIAL VALUATIONS

OPTrust is required by pension law to complete a funding valuation of its accrued pension benefits every three years. A separate valuation is performed annually for presentation in the financial statements included with this report.

Both the three-year funding valuation and the annual financial statements rely on "actuarial valuations" of the Plan. An actuarial valuation assesses the Plan's assets, and its ability to pay members' and pensioners' future benefits. To do this, a series of actuarial assumptions are used concerning a wide range of factors. These include: contribution levels, inflation rates, investment returns, members' salaries, their age of retirement or termination, benefit levels and pensioners' life expectancy. The actuarial assumptions selected and the valuation techniques used have a significant impact on the results of the valuation.

Because the three-year funding valuation is used to set future benefit levels and contribution rates, it relies on more conservative actuarial assumptions and techniques than those used in the valuation

for financial statement purposes. For example, the financial statement valuation is based on members' current service information, whereas the funding valuation includes both current and projected future service. The funding valuation also uses more conservative economic assumptions than those used for the financial statements, as shown below.

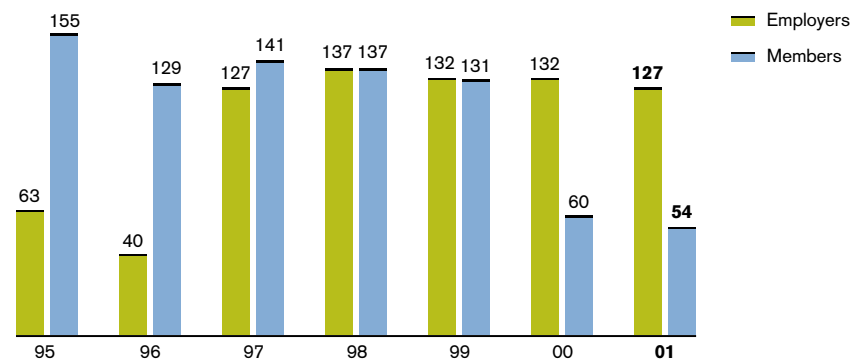
### Economic Assumptions: Funding vs. Financial Statement Valuations

	Funding Valuation	Financial Statement Valuation
Investment Return	7.50%	7.75%
Inflation Rate	3.50%	3.50%
Salary Escalation	4.50%	4.50%

OPTrust periodically reviews the Plan's economic assumptions, in concert with the Plan's actuaries. For 2001, no change was made to these assumptions, which continue to reflect long-term prospects of the Plan.

The OPSEU Pension Plan's most recent funding valuation took place as at December 31, 1998 for the years 1996-98 and identified gains of \$1,334 million. The Plan's next funding valuation, covering the period 1999-2001, will be completed in mid-2002.

### Contributions (\$ millions)



Beginning December 1, 1999, member contributions were reduced by 4% of salary until November 30, 2002. Employer contributions continue at the normal rate.

### GAINS ALLOCATION

Actuarial gains identified in the Plan's three-year funding valuations are shared between the Plan's membership and the Government of Ontario.

As a plan sponsor, OPSEU has responsibility for determining how to use the members' share of any gains. In 1999, OPSEU used its \$667 million share of gains from the 1996-1998 valuation to pay for improved benefits, time-limited early retirement options and a three-year contribution reduction. OPSEU also created a fund to stabilize future contributions, currently valued at \$39 million. The temporary Factor 80 early retirement option and the reduced member contribution rate expire in 2002.

The Government of Ontario's share of gains from 1996-1998 was used to reduce the Plan's initial unfunded liability by \$667 million. This allocation, together with the Government's regularly scheduled payments, has reduced the Plan's initial unfunded liability from \$820 million to \$63 million as of December 31, 2001.

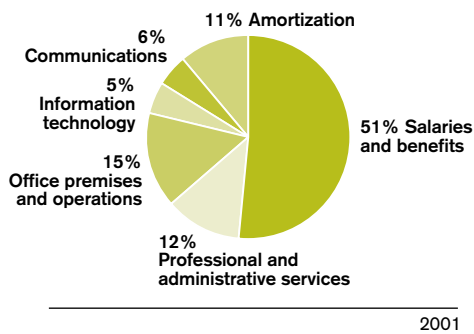
Together, these allocations by the sponsors account for all the gains identified in the December 31, 1998 funding valuation.

The Plan's \$1.8 billion financial statement surplus is a leading indicator that gains may be identified in the 1999-2001 funding valuation. Any gains will be shared between the members and pensioners and the Government of Ontario. Gains may be used to improve benefits, lower contributions or set aside a stabilization fund. The Government must first use its gains to reduce any unfunded liability it owes.

As a result of this process, adjustments have been made to the original data concerning members' service, salaries and earned benefits. As agreed by the sponsors, the Plan's original funding valuation as at December 31, 1992 has been reviewed by OPTrust's external actuaries and a revised, or "restated," valuation has been prepared to reflect these data corrections. The restated valuation has identified an increase of \$56.8 million in the actuarial liability as at December 31, 1992. With interest, this amount is equal to \$97.0 million as at December 31, 2001. This information and the supporting report has been provided to both plan sponsors.

Under the Sponsorship Agreement, the Government of Ontario is required to fund any increase in the Plan's liability arising from the restated valuation. This is to be done through two payments of \$10 million on each of March 31, and April 1, 2002. The balance is to be repaid, with accumulated interest, over six years from March 31, 2002. Should there be any gains allocated from the 1999-2001 funding valuation, the Province must use its share first to pay down the outstanding balance of the initial unfunded liability. It must then apply gains to any special payments related to the pension data purification liability.

### 2001 Administrative Expenses



### PENSION DATA PURIFICATION ADJUSTMENT

To ensure the accuracy of members' pension data, the Government of Ontario and OPTrust recently completed a review of the data provided by the Province when the Plan was established. This process was referred to as "data purification." The Government of Ontario also agreed to work with OPTrust to validate member and pensioner information up to December 31, 1998. Altogether, more than 64,000 member records were reviewed, a significant task, taking over three years to complete.

# Financial Statements



**TO THE BOARD OF TRUSTEES OF THE OPSEU PENSION TRUST,  
ADMINISTRATORS OF THE OPSEU PENSION PLAN**

We have audited the statement of net assets available for benefits and accrued pension benefits and surplus of the Ontario Public Service Employees Union Pension Plan (the Plan) as at December 31, 2001 and December 31, 2000 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the years then ended. These statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's administrator as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus of the Plan as at December 31, 2001 and December 31, 2000 and the changes in its net assets available for benefits, accrued pension benefits and surplus for the years then ended in accordance with Canadian generally accepted accounting principles.

*Price Waterhouse Coopers LLP*

Chartered Accountants

Toronto, Canada

February 5, 2002



We performed an actuarial valuation of the Ontario Public Service Employees Union Pension Plan (the OPSEU Pension Plan) for funding purposes as of December 31, 1998 as stated in Note 6 of these financial statements. In respect of that valuation, we hereby certify that, in our opinion, the assumptions are, in aggregate, appropriate for the purposes of the valuation and the data is sufficient and reliable for the purposes of the valuation. The valuation was prepared, and our opinions given, in accordance with accepted actuarial practice.

As further stated in Note 6 of these financial statements, we have prepared an actuarial valuation of the OPSEU Pension Plan accrued pension benefits for financial statement purposes as at December 31, 2001 in accordance with the Canadian Institute of Chartered Accountants Handbook Section 4100. The valuation was based on an extrapolation of the December 31, 2000 accrued pension benefits determined using membership data from December 31, 2000, the projected unit credit cost method prorated on services and management's best estimate assumptions for 2001 financial statement purposes as set out in Note 6. In our opinion, the assumptions are, in aggregate, appropriate for the purposes of the valuation.

In our opinion, the December 31, 2001 actuarial valuation for financial statement purposes was prepared in accordance with accepted actuarial practice.

Peter C. Hirst

Fellow, Institute of Actuaries

Fellow, Canadian Institute of Actuaries

W. Scott Simpson

Fellow, Society of Actuaries

Fellow, Canadian Institute of Actuaries

February 5, 2002

## Actuaries' Certificate



## Management Responsibility for Financial Reporting

The management of the OPSEU Pension Trust (OPTrust) is responsible for the integrity and objectivity of the financial information presented in this annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and comply with the financial reporting requirements of the *Pension Benefits Act* of Ontario. The financial statements include amounts that must of necessity be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the financial statements.

Management has recognized the importance of OPTrust maintaining and reinforcing a high standard of conduct in all of its actions, including the preparation and publication of statements fairly presenting the financial condition of the OPSEU Pension Plan and OPSEU Pension Plan Trust Fund. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are properly authorized, assets are safeguarded against unauthorized use or disposition and proper records maintained. The system is augmented by the careful training and selection of qualified staff, the establishment of organizational structures providing for a well-defined division of responsibilities, and the communication of policies and guidelines of business conduct throughout OPTrust.

The Board of Trustees has the ultimate responsibility for the financial statements presented to plan members. An Audit Committee, consisting of Trustees appointed by each of the Government and OPSEU, reviews the financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets on a regular basis with

management and with the external auditors to review the scope of the audit and discuss their findings and to satisfy itself that their responsibilities have been adequately discharged.

PricewaterhouseCoopers LLP, the external auditors, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards and have expressed their opinion upon completion of such examination in their report to the Board of Trustees. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of the system of internal controls.



Colleen Parrish  
President and Plan Manager



Charlie Eigl  
Treasurer and Director,  
Finance and Administrative Services


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

As at December 31 (\$ millions)	2001	2000
<b>ASSETS</b>		
Investments (Note 5)	9,372	9,972
Contributions receivable		
Members	6	7
Employers	21	19
Accrued income	21	14
Capital assets, net	12	5
	<b>9,432</b>	<b>10,017</b>
<b>LIABILITIES</b>		
Accounts payable and accrued charges	(6)	(15)
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		
Actuarial asset value adjustment	191	(706)
<b>ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>9,617</b>	<b>9,296</b>
<b>ACCRUED PENSION BENEFITS AND SURPLUS</b>		
Accrued pension benefits (Note 6)	7,832	7,713
Surplus	1,785	1,583
<b>ACCRUED PENSION BENEFITS AND SURPLUS</b>	<b>9,617</b>	<b>9,296</b>

On behalf of the Board of Trustees



Stanley F. Sanderson  
Chair



Paul Sharkey  
Vice-Chair

## Statement of Changes in Net Assets Available for Benefits

For the years ended December 31 (\$ millions)	2001	2000
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>10,002</b>	9,571
Net investment income (loss) (Note 7)	<b>(359)</b>	654
Contributions (Note 8)	<b>231</b>	247
Benefit payments		
Retirement pensions	<b>(283)</b>	(250)
Refunds and commuted value transfers	<b>(57)</b>	(80)
Transfers to other plans	<b>(88)</b>	(122)
Operating expenses (Note 9)	<b>(20)</b>	(18)
<b>NET INCREASE (DECREASE) IN ASSETS AVAILABLE FOR BENEFITS</b>	<b>(576)</b>	431
<b>NET ASSETS, END OF YEAR</b>	<b>9,426</b>	10,002

## Statement of Changes in Accrued Pension Benefits

For the years ended December 31 (\$ millions)	2001	2000
<b>ACCRUED PENSION BENEFITS, BEGINNING OF YEAR</b>	<b>7,713</b>	7,242
<b>INCREASE IN ACCRUED PENSION BENEFITS</b>		
Interest on accrued pension benefits	601	546
Benefits earned	263	268
Changes in assumptions	-	109
	<b>864</b>	923
<b>DECREASE IN ACCRUED PENSION BENEFITS</b>		
Benefits paid	428	452
Actuarial gains	317	-
	<b>745</b>	452
<b>NET INCREASE IN ACCRUED PENSION BENEFITS</b>	<b>119</b>	471
<b>ACCRUED PENSION BENEFITS, END OF YEAR</b>	<b>7,832</b>	7,713

## Statement of Changes in Surplus

For the years ended December 31 (\$ millions)	2001	2000
<b>SURPLUS, BEGINNING OF YEAR</b>	<b>1,583</b>	1,401
<b>INCREASE IN ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS</b>		
Increase (decrease) in net assets available for benefits	(576)	431
Change in actuarial asset value adjustment	897	222
	<b>321</b>	653
<b>NET INCREASE IN ACCRUED PENSION BENEFITS</b>	<b>(119)</b>	(471)
<b>NET INCREASE IN SURPLUS</b>	<b>202</b>	182
<b>SURPLUS, END OF YEAR</b>	<b>1,785</b>	1,583

## 1. PLAN PROFILE

### OPSEU Pension Plan

The OPSEU Pension Plan (the Plan) provides pension benefits for employees of the Province of Ontario (the Province) in bargaining units represented by the Ontario Public Service Employees Union (OPSEU) and other designated bargaining units. The Plan was established under the terms of the April 18, 1994 Sponsorship Agreement between the Province and OPSEU, which also established the OPSEU Pension Plan Trust Fund (the Fund) to hold the net assets available for benefits of the Plan. These financial statements reflect the aggregate financial position of the Plan, including net assets available for benefits, accrued pension benefits and surplus of the Plan.

The OPSEU Pension Plan is registered under the *Pension Benefits Act* of Ontario and the *Income Tax Act* (Canada), registration number 1012046. The Plan is a Registered Pension Trust as defined in the *Income Tax Act* and is not subject to income taxes.

### OPSEU Pension Trust

The Sponsorship Agreement establishes the Province and OPSEU as joint sponsors of the Plan. The Board of Trustees of the OPSEU Pension Trust (OPTrust) is responsible for the administration and management of both the OPSEU Pension Plan and the OPSEU Pension Plan Trust Fund, as described in the Trust Agreement between the sponsors. The Board of Trustees comprises five persons appointed by each of the Province and OPSEU.

## 2. DESCRIPTION OF THE OPSEU PENSION PLAN

The OPSEU Pension Plan is a contributory defined benefit pension plan. Membership within the Plan consists of members represented by OPSEU or other designated bargaining units and employed by the following organizations:

- The Province of Ontario (civil servants and crown employees)
- Alcohol and Gaming Commission of Ontario
- Centre for Addiction and Mental Health (Addiction Research Foundation and Queen Street Mental Health Centre divisions)
- Liquor Control Board of Ontario (represented by the Ontario Liquor Boards Employees' Union)
- Ontario Teachers' Pension Plan Board
- Ontario Pension Board
- OPSEU Pension Trust (includes non-bargaining unit employees)
- Niagara Parks Commission
- New Democratic Party Caucus
- St. Lawrence Parks Commission
- Workers' Compensation Appeals Tribunal

In 2001, approximately 1,000 employees of Local Housing Authorities (represented by OPSEU and local 3096 of the Canadian Union of Public Employees) were divested from the Plan. Smaller divestments also occurred in 2001.

Effective January 3, 2002, the approximately 1,100 civilians employed with the Ontario Provincial Police were transferred to the Ontario Pension Board. The value of their accumulated pension benefits will be transferred to the Ontario Pension Board when the cases are processed.

### Funding

Contributions and investment earnings fund plan benefits. The determination of the value of the benefits and required contributions is based on the periodic actuarial valuations for funding purposes.

## Contributions

The OPSEU Pension Plan is integrated with the Canada Pension Plan (CPP). Required contributions to the OPSEU Pension Plan were as follows for 2001:

Salary Range	Maximum Salary	Contribution Percentage	
		Employers	Members
Below the Year's Basic Exemption (YBE)	\$3,500	8.0%	4.0%
Between YBE and the CPP Year's Maximum Pensionable Earnings (YMPE)	\$38,300	6.2%	2.2%
In excess of the YMPE, up to	\$99,037	8.0%	4.0%

The contribution percentages for 2000 were the same as for 2001.

The employer and member contribution percentages differ due to a temporary reduction in member contributions. Effective December 1, 1999, member contributions were reduced by 4% of member's salaries for a three-year period, while employer contributions stayed at the higher level. The permanent member contribution rate is the same as the employer rate.

## Pension Benefits

The Plan provides for the payment of a pension benefit equal to 2% of the average of the best five consecutive years of salary, for each year of credited service. An unreduced pension can be received at age 65, or before age 65 if the member's age and credit total 90 (Factor 90) or when the member reaches age 60 and has 20 or more years of credit.

When a member reaches age 65, his or her pension is reduced by an amount that reflects the lower contributions made for earnings between the YBE and the YMPE (referred to as the CPP offset). The CPP offset is 0.675% of the lesser of average YMPE or average salary.

There is a time-limited provision that provides for an enhanced retirement opportunity for those members of the Plan whose age and credit total 80 (Factor 80) by March 31, 2002.

Reduced pensions are available to members who retire after age 55 and before age 65 who are not entitled to unreduced benefits. Typically, the pension reduction is equal to 5% for each year that the member is under age 65 when he or she retires. For members retiring prior to December 1, 2004, the reduction is calculated based on the number of years from the date of retirement to the earliest date at which the member would have been eligible for an unreduced pension (other than Factor 80) had they remained active in the plan.

## Inflation Protection

An adjustment to pension benefits for inflation is made annually based on the Consumer Price Index to a maximum of 8% in any one year. Where the inflation adjustment exceeds 8% in any one year, the excess is carried forward to any subsequent year when the adjustment is less than 8%. The adjustment is made to both current pensions and the future value of deferred pensions.

## Death Benefits

Upon the death of a member or pensioner, death benefits are available to a surviving eligible spouse, eligible children, designated beneficiary, refund recipient or estate. The death benefit may be in the form of a survivor pension, a lump sum payment or both. The Plan provides a 60% survivor pension to an eligible spouse or child(ren) at no cost to the pensioner. In the case of limited life expectancy, provisions exist to access lump sum payouts, provided spouses waive their survivor pension.

## Disability Pensions

A disability pension is available to members with a minimum of 10 years of credit in the Plan and who meet the criteria as established in the Plan document. The amount of the disability pension depends on the years of credit and the average salary of the disabled member.

**Deferred Pensions**

Members who terminate from the Plan before age 55 have the option of leaving their money in the Plan and receiving a pension on retirement. In addition, members who are moved to other employers in a divestment situation and enrolled at a new pension plan may be required by law to accept a deferred pension from the OPSEU Pension Plan in order to protect benefits earned.

The value of deferred pensions increases annually by the annual inflation protection adjustment.

**Termination Payments**

Subject to certain restrictions, a member who terminates employment may be entitled to transfer the commuted value of his or her pension and/or a refund of contributions to a registered retirement savings plan, or use these funds to purchase a life annuity. Some refunds of contributions or excess contributions may also be paid in cash, subject to withholding of income taxes.

**Transfers**

In certain circumstances, a member who terminates employment may be entitled to transfer the value of his or her pension to another pension plan if OPTrust has a reciprocal transfer agreement with this plan. In addition, members who do not terminate employment but must move to the Public Service Pension Plan due to a change in bargaining unit status are subject to mandatory transfer arrangements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Presentation**

These financial statements are prepared on the going concern basis in accordance with accounting principles generally accepted in Canada. The statements present the aggregate financial position of the Plan as a separate financial reporting entity independent of the participating employers, bargaining units, plan members and pensioners.

**Valuation**

Net assets available for benefits are carried at values that approximate their fair value. Accrued pension benefits are valued using assumptions developed by reference to long-term market conditions that may not result in an approximation of fair value.

**Use of estimates**

In preparing these financial statements, management must make certain estimates and assumptions that primarily affect the reported values of assets and liabilities, income and expenses and related disclosures. Actual amounts could differ from those estimates.

**Investments**

Investment transactions are recognized on the trade date.

**Valuation of investments**

Invested assets are accounted for using market values, as determined by independent third parties, on the valuation date.

Category	Basis of Valuation
Exchange traded equity securities and equity index futures contracts	Closing quoted market price. Where a market price is not available, market value is determined by reference to current market information
Marketable debt securities, including short-term investments and real return bonds; currency futures or forward contracts	Average of closing bid and ask prices
Non-marketable debt securities	Estimated market values based on the market yields of comparable securities
Real estate	Estimated market values based on annual appraisals

These valuation principles are applied whether the investments are held directly, through pooling arrangements, or through limited liability companies.

Equity index futures contracts are derivative financial contracts whose value is derived from movements in the underlying basket of equity securities upon which they are based. A currency futures or forward contract is a derivative financial contract between two parties to exchange currencies at a designated price and future delivery date.

### **Income recognition**

Investment income comprises earned income (interest and dividends), realized gains and losses on disposal of investments, and unrealized gains and losses resulting from changes in the market value of investments.

<b>Category</b>	<b>Basis of Valuation</b>
Interest income	Accrual basis
Dividend income	Accrual basis on the ex-dividend date
Realized gains and losses for investments sold	Difference between proceeds on disposal and the average cost
Unrealized gains and losses for investments held	Difference between market value and the average cost at year end

Average cost reflects the purchase cost of the investment, including direct acquisition costs.

### **Accrued Pension Benefits**

The value of accrued pension benefits is determined based on actuarial valuations prepared by an independent actuarial firm. Actuarial valuations are prepared every three years for purposes of determining funding requirements (funding valuation). Financial statement valuations are prepared annually based on data extrapolated from the most recent actuarial valuation for financial reporting purposes (financial statement valuation). As of 2001, financial statement valuations will be prepared annually reflecting data current to the prior year end. These annual valuations are not prepared for funding purposes.

### **Financial statement valuation**

For financial reporting purposes, the Canadian Institute of Chartered Accountants (CICA) requires that pension plans report the actuarial value of accrued pension benefits using management's best estimate assumptions and the projected benefit method pro-rated on service. This method calculates the actuarial value of pension benefits accrued up to the financial reporting date after the projected benefits have been attributed equally to each year of a member's service.

### **Funding valuation**

The aggregate funding method considers a time horizon that includes accumulation of benefits and receipt of contributions 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 triennial funding valuation is required by regulatory authorities and is used to identify gains or losses; sponsors make decisions with respect to the allocation of such gains to affect contributions and/or benefit improvements. If a triennial funding valuation discloses a deficit, both member and employer contributions may be increased, depending on the utilization of any rate stabilization funds.

### **Contributions**

Contributions from members and employers that are due to the Plan at year-end are recorded as a receivable. Contributions and matching contributions relating to purchases of credit for prior employment or leaves and transfers are recorded when cash is received.

### **Payments**

Payments of pensions, refunds and transfers are recorded in the period in which they are incurred.

### **Member stabilization fund**

The member stabilization fund is the portion of the actuarial gains in the funding valuation identified as belonging to the membership that has been allocated to contribution stabilization. OPSEU is responsible for the decision as to the size of the stabilization fund for members. The stabilization fund is used as a reserve against future increases in member contributions, resulting from the membership's share of future adverse experience, and may also be reduced to fund future benefit improvements, at the discretion of OPSEU. The fund earns income on the assets retained in the Plan at the assumed investment rate of return used in the funding valuation of the Plan. As at December 31, 2001, \$39 million (2000 – \$36 million), including interest of \$8 million (2000 – \$5 million), was allocated to the member stabilization fund.



**Initial unfunded liability**

A funding valuation was performed as at December 31, 1995, which established the balance of the initial unfunded liability of the Plan at \$710 million. The Province of Ontario assumed responsibility for this amount, including accumulated interest, and agreed to its reduction through a combination of payments and the application of its portion of actuarial gains. The unfunded liability totaled \$63 million at December 31, 2001 (2000 – \$97 million), after applying \$667 million in actuarial gains disclosed in the December 31, 1998 funding valuation and monthly payments to the end of 2001 (\$40 million in 2001). The remaining monthly payments are sufficient to extinguish the remaining obligation by July, 2003.

The special payments related to the unfunded liability are recorded in the period in which they are received.

**Pension data purification adjustment**

The Government of Ontario and OPTrust recently completed a review of the accuracy of member data provided to OPTrust when the Plan was established. The review resulted in the need to adjust some of the original member data that was used in the original funding valuation as at December 31, 1992. The Sponsors had agreed that the 1992 valuation was to be re-performed or “restated” and financial adjustments made based on the revised data.

The Plan’s external actuaries have recently completed the restated valuation and have identified an increase of \$56.8 million in the actuarial liability as at December 31, 1992. With interest, this amount is equal to \$97 million as at December 31, 2001. This information and the supporting report have been provided to both plan sponsors.

Under the current provisions of the Sponsorship Agreement, the Government of Ontario is required to pay to OPTrust two installments of \$10 million on each of March 31, and April 1, 2002. The balance is to be repaid, with accumulated interest, over 6 years from March 31, 2002. The Government of Ontario must use any gains allocated to them out of the 1999 – 2001 funding valuation, or future valuations if necessary, to extinguish the outstanding balance owed on the initial unfunded liability, and thereafter gains shall be applied to any special payments such as those arising from the additional pension data purification liability.

Payments resulting from the accumulated actuarial loss are in the form of unfunded liability payments and consequently, will be recorded in the financial statements in

the period in which they are received. The impact of the adjustments to the member data was, however, recognized in the accrued pension benefits of the Plan when the adjustments were made and is, therefore, mostly reflected in the accrued pension benefits as at December 31, 2001.

**Actuarial Asset Value Adjustment**

The actuarial value of investments as at the reporting dates has been determined using a formula that smoothes out the effects of the changes in market values over a four year period. It recognizes the realized gains and losses and the changes in unrealized gains and losses occurring in a particular year evenly over the current and the following three years. The actuarial asset value adjustment reflects the portion of gains or losses not yet recognized for purposes of determining the net assets available for benefits.

**Capital Assets**

Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the capital assets.

**Foreign Currency Translation**

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The market value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end. The resulting unrealized gain or loss is included in the Statement of Changes in Net Assets Available for Benefits.

**4. RISK MANAGEMENT**

The Plan is subject to certain risks and engages in risk management practices to help ensure that sufficient assets will be available to fund pension benefits. These risks relate primarily to the uncertainty inherent in achieving sufficient investment returns and in making forecasts with respect to the ultimate pension liability. Investment risk management involves optimizing investment returns in this climate of uncertainty.

The Plan has established an asset mix policy of approximately 60% equities, 33% fixed income securities and a 7% inflation protection component (real return bonds and real estate). The returns on the fixed income component reflect the changes in nominal interest rates, while the equity returns have, over the long term, demonstrated a positive correlation to changes in inflation and salary increases.

## Risks Related to Investment Returns

### Interest rate risk

Interest rate risk arises from interest rate fluctuations that may adversely affect the Plan's cash flows or the value of financial instruments. The potential exposure is as a result of either changes in floating rates reducing cash flows, or changes in the asset values for fixed rate securities (e.g., bonds).

The Plan manages interest rate risk by establishing a target asset mix that provides an appropriate mix between interest-sensitive investments and those subject to other risks. A portion of the interest-sensitive portfolio is actively managed, allowing managers to anticipate interest rate movements to mitigate or take advantage of interest rate movements. The passive portion of the portfolio, held in non-marketable debentures of the Government of Ontario, is subject to changes in market value as interest rates change.

The Plan has exposure to interest risk as follows:

	2001			Total	Effective Yield
	Term of Maturity				
As at December 31 (\$ millions)	Within 1 Year	1 to 5 Years	Over 5 Years		
Short-term investments	159	-	-	159	2.6%
Government of Ontario debentures	50	384	1,809	2,243	8.4%
Bonds	-	287	863	1,150	5.4%
<b>TOTAL</b>	<b>209</b>	<b>671</b>	<b>2,672</b>	<b>3,552</b>	
	2000				
Short-term investments	493	-	-	493	4.5%
Government of Ontario debentures	39	328	1,947	2,314	8.4%
Bonds	5	127	902	1,034	5.1%
<b>TOTAL</b>	<b>537</b>	<b>455</b>	<b>2,849</b>	<b>3,841</b>	

### Credit risk

Credit risk refers to the potential loss arising from a security issuer being unable to meet its financial obligations.

The greatest credit exposure for the Plan is with the Province of Ontario. As of December 31, 2001, the Plan held \$2,301 million (2000 – \$2,394 million) in short term and fixed income investments issued or guaranteed by the Government of Ontario, including special Government of Ontario debentures. The Province is also responsible for the funding of the initial unfunded liability and the liability arising from the restated 1992 valuation.

Investment restrictions within the Plan have been set to limit the credit exposure to security issuers of bonds and debentures at time of purchase with a minimum rating of "A" or better and short term investments rated as "R-1 low" or better (ratings as provided by the Dominion Bond Rating Service or equivalent). As at December 31, 2001 and 2000, 100% of the short term investment portfolio met the credit rating criteria. As of December 31, 2001, 98.8% (2000 – 99.9%) of the fixed income portfolio (which includes bonds and the Government of Ontario debentures) was rated "A" or better.

### Foreign exchange risk

Foreign exchange risk is the risk that the value of investments will be affected by changes in foreign currency exchange rates for Canadian dollars.

The Plan allows its investment managers to manage the foreign currency exposure on a total return basis.

The Plan's exposure to foreign exchange risk by currency of issue is as follows:

As at December 31 (\$ millions)	2001	2000
Canadian dollar	7,088	8,586
<b>Investments subject to currency risk</b>		
United States dollar	1,305	679
United Kingdom pound sterling	246	175
Euro (including predecessor currencies)	422	313
Asia Pacific currencies	221	157
Other currencies	90	62
	<b>2,284</b>	1,386
<b>TOTAL INVESTMENTS</b>	<b>9,372</b>	9,972

**Market risk**

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether specific to the individual security or its issuer, or to factors affecting all securities in the market.

The Plan accepts market risk as a natural consequence of investing. However, investment management practices are designed to optimize the relationship between risk and return. These practices include diversification across investment managers and styles, geographic boundaries and alternate types of investments. In addition, the Plan takes a long term perspective for its investments generally, emphasizing investment strategies and accounting and valuation practices that focus on trends rather than short term fluctuations.

**Liquidity risk**

Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and expenses as they become due.

Cash inflows are derived from member and employer contributions, earned income, principal repayments on fixed income investments and the proceeds from sales of other securities. Excess cash flows, after meeting pension obligations and operating expenses, are re-invested. The Plan forecasts and manages cash flows to ensure it meets its obligations when due, without unintended early liquidation of assets. Currently, cash inflows are in excess of current cash benefit obligations and operating expenses. The Plan has standby lines of credit totaling \$5 million to assist with addressing short-term cash requirements. In addition, 62% (2000 – 61%) of the Plan's investments are marketable and can be liquidated relatively quickly.

**5. INVESTMENTS**

The following schedule summarizes the market value and cost of the Plan's investments, including the effect of derivative financial instruments.

As at December 31 (\$ millions)	2001		2000	
	Market Value	Average Cost	Market Value	Average Cost
<b>Cash</b>	<b>37</b>	<b>43</b>	20	20
<b>Short-term investments</b>	<b>159</b>	<b>159</b>	493	493
<b>Government of Ontario debentures</b>	<b>2,243</b>	<b>1,744</b>	2,314	1,816
<b>Canadian bonds</b>	<b>1,150</b>	<b>1,057</b>	1,034	923
<b>Equities</b>				
Canadian	<b>2,192</b>	<b>1,845</b>	3,184	2,399
Foreign	<b>2,264</b>	<b>2,169</b>	1,383	1,218
Foreign pooled equity linked investments	<b>1,282</b>	<b>1,343</b>	1,501	1,338
<b>Total equities</b>	<b>5,738</b>	<b>5,357</b>	6,068	4,955
<b>Real estate</b>	<b>45</b>	<b>40</b>	43	38
<b>TOTAL INVESTMENTS</b>	<b>9,372</b>	<b>8,400</b>	9,972	8,245

The market value of cash includes net unrealized losses on currency forward exchange contracts of \$5.4 million as at December 31, 2001 (2000 – nil).

**6. ACCRUED PENSION BENEFITS****Financial Statement Valuation as at December 31, 2001**

The Accrued Pension Benefits as at December 31, 2001 are based on member data from an interim valuation prepared by Buck Consultants as at December 31, 2000. This data reflects any adjustments that had been made to member data as part of the Pension Data Purification Adjustment (note 3) at the time the valuation was conducted.

The interim valuation disclosed an actuarial gain, for financial statement purposes, of \$317 million resulting from actual salary, YMPE, inflation and demographic experience during 1999 and 2000 being different from assumptions. This interim valuation is not a funding valuation that can be filed with the regulatory authorities and trigger gains or losses for funding purposes.

The Accrued Pension Benefits as at December 31, 2000 are based on an extrapolation of data of the Plan from the last triennial valuation of the Plan as at December 31, 1998.

### Actuarial Valuation as at December 31, 1998

Buck Consultants prepared the latest triennial valuation of the Plan as at December 31, 1998, which disclosed an actuarial gain, for financial statement purposes, of \$768 million. (The actuarial gains reported under the funding valuation for the three-year period totaled \$1,334 million.)

OPSEU utilized the members' and pensioners' half of the \$1,334 million actuarial gain under the funding valuation to provide benefit improvements, including a three-year contribution reduction, and to establish a member stabilization fund, for a total cost of \$667 million under the funding valuation (\$363 million under the financial statement valuation). The Province of Ontario's share of the actuarial gain has been used to eliminate its unfunded liability obligations subsequent to July 2003.

The actuarial gains determined under the funding valuation as at December 31, 1998 have been fully allocated. The next triennial valuation of the Plan will be done as at December 31, 2001. The results of this valuation should be available in mid-2002.

### Actuarial Assumptions

The Plan annually reviews the economic assumptions used in the financial statement valuation to ensure that they reflect management's best estimate of expected long-term trends. The key economic assumptions used for the extrapolation of the financial statement valuation as at December 31 are as follows:

	2001	2000
Investment return	7.75%	7.75%
Inflation rate	3.50%	3.50%
Salary escalation*	4.50%	4.50%

\* percentage shown plus service-related promotion scale

The Plan also periodically reviews the appropriateness of demographic assumptions used in the financial statement and funding valuations. The latest review occurred in 2000 and resulted in early retirement and termination assumptions being adjusted to reflect experience and the adoption of more current mortality tables. Concurrently, small adjustments were made to assumptions related to long-term inflation, investment return and salary escalation. The net impact of these changes is an increase in accrued pension benefits. The impact of these changes is incorporated into the financial statement valuations as at December 31, 2001 and 2000, and will be included in the next triennial funding valuation as at December 31, 2001.

### 7. NET INVESTMENT INCOME

For the years ended December 31 (\$ millions)

	Earned Income	Realized Gains (Losses)	Unrealized Gains (Losses)	Net Investment Income
<b>2001</b>				
<b>Cash and short-term investments</b>	14	-	(5)	9
<b>Government of Ontario debentures</b>	193	(19)	1	175
<b>Other Canadian bonds</b>	61	9	(17)	53
<b>Equities</b>				
Canadian	46	180	(439)	(213)
Foreign	23	(110)	(70)	(157)
Foreign pooled equity linked investments	-	5	(223)	(218)
<b>Total equities</b>	69	75	(732)	(588)
<b>Real estate</b>	3	-	-	3
	340	65	(753)	(348)
Investment manager fees				(9)
Other investment expenses				(2)
<b>NET INVESTMENT INCOME</b>				<b>(359)</b>

	Earned Income	Realized Gains (Losses)	Unrealized Gains (Losses)	Net Investment Income
<b>2000</b>				
<b>Cash and short-term investments</b>	17	-	-	17
<b>Government of Ontario debentures</b>	197	(20)	77	254
<b>Other Canadian bonds</b>	57	(1)	83	139
<b>Equities</b>				
Canadian	49	424	45	518
Foreign	18	127	(258)	(113)
Foreign pooled equity linked investments	-	12	(166)	(154)
<b>Total equities</b>	67	563	(379)	251
<b>Real estate</b>	2	-	2	4
	340	542	(217)	665
Investment manager fees				(10)
Other investment expenses				(1)
<b>NET INVESTMENT INCOME</b>				<b>654</b>

**8. CONTRIBUTIONS**

For the years ended December 31 (\$ millions)	2001	2000
<b>MEMBERS</b>		
Current service	45	47
Prior service	11	7
Long term income protection	(2)	6
	54	60
<b>EMPLOYERS</b>		
Current service	115	120
Prior service	6	5
Long term income protection	6	7
	127	132
Unfunded liability payments by the Government of Ontario	40	38
Transfers from other plans	10	17
<b>TOTAL CONTRIBUTIONS</b>	<b>231</b>	<b>247</b>

**9. OPERATING EXPENSES**

For the years ended December 31 (\$ millions)	2001	2000
Salaries and benefits	10.1	9.0
Office premises and operations	3.0	1.9
Professional and administrative services	2.4	2.7
Amortization	2.2	1.9
Communications	1.1	1.0
Information technology	0.9	1.4
<b>TOTAL OPERATING EXPENSES</b>	<b>19.7</b>	<b>17.9</b>

Audit expenses were \$106 thousand in 2001 (\$111 thousand in 2000).

**10. COMPENSATION**

The Trustees of the Plan serve in a voluntary capacity and do not receive compensation for their services from the Trust. They are, however, reimbursed for travel-related expenses. Expenses for amounts paid to or on behalf of Trustees totaled \$94 thousand in 2001 (2000 – \$106 thousand).

Compensation to the senior management team comprises base salaries, pension and insured benefits, vacation entitlements and moving allowances, if any. Base salaries paid were as follows for 2001 (2000 – \$804 thousand).

For the year ended December 31 (\$ thousands)

Name	Position	Salary
Morgan Eastman	Chief Investment Officer <i>From January 15, 2001</i>	272
Colleen Parrish	President and Plan Manager	225
Bill Foster	Director, Member and Pensioner Services	141
Charlie Eigl	Treasurer and Director, Finance and Administrative Services	140
Graeme Isdale	Director, Information Technology	134
Maryanne McManus	Project Director, PARIS	130
Robert Breens	Director, Policy, Communications and Trustee Support <i>From June 4, 2001</i>	64
Dan McArthur	Director, Policy, Communications and Trustee Support <i>To May 31, 2001</i>	63
<b>TOTAL SALARY COMPENSATION</b>		<b>1,169</b>

Compensation arrangements with the management team provide for the accumulation of pension benefits. Coverage of up to \$99,037 (2000 – \$98,801) of the individual's salary is provided under the OPSEU Pension Plan and amounts in excess are provided under separate pension arrangements. Both the member and the employer are required to contribute a percentage of the member's salary in excess of \$99,037 (2000 – \$98,801) to these separate arrangements. Insured benefits for management employees are the same as for bargaining unit employees. Management employees earn between four and six weeks vacation a year.

## Schedule of Special Government of Ontario Debentures

As at December 31, 2001

<b>Maturity Date</b>	<b>Coupon %</b>	<b>Market</b> (\$ millions)	<b>Cost</b> (\$ millions)
2002 – 2006	9.00 – 9.99	210	187
	11.00 – 11.99	101	85
	12.00 – 16.99	123	99
		434	371
2007 – 2011	11.00 – 11.99	231	175
	12.00 – 12.99	370	288
	13.00 – 13.99	207	157
	15.00 – 15.99	159	124
		967	744
2012 – 2014	10.00 – 10.99	245	185
	11.00 – 11.99	597	444
		842	629
		2,243	1,744
Accrued Interest		8	8
<b>TOTAL</b>		2,251	1,752

## Schedule of Significant Investments

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than \$10 million.

A full list of investments is available upon request.

As at December 31, 2001	Number of Shares	Market (\$ millions)	Cost (\$ millions)
<b>COMMON STOCKS</b>			
<i>Canadian</i>			
Nortel Networks Corp.	8,697,496	104	247
Toronto Dominion Bank	2,197,140	90	51
Royal Bank of Canada	1,458,004	76	37
Bank of Montreal	2,084,630	75	43
BCE Inc.	1,944,770	70	42
Bank of Nova Scotia	1,416,668	69	34
Manulife Financial Corp.	1,587,455	66	44
Canadian Imperial Bank of Commerce	1,118,279	61	28
Bombardier Inc.	3,377,100	56	31
Alcan Inc.	911,441	52	42
Barrick Gold Corp.	1,821,986	46	50
Suncor Energy Inc.	848,380	44	23
Biovail Corp.	492,270	44	15
Sun Life Financial Services of Canada Inc.	1,219,100	41	36
Magna International Inc.	399,285	40	28
Petro-Canada	1,029,350	40	16
Enbridge Inc.	877,230	38	23
Potash Corp. of Saskatchewan Inc.	376,465	37	31
Rogers Communication Inc.	1,319,075	36	39
Talisman Energy Inc.	599,164	36	23
Abitibi-Consolidated Inc.	2,823,738	33	39
Thomson Corp.	687,650	33	26
QLT Inc.	800,500	32	34
TrizecHahn Corp.	1,259,135	32	32
TransCanada Pipelines Ltd.	1,411,874	28	29
PanCanadian Energy Corp.	659,796	27	26
Canadian National Railway Co.	348,890	27	11
Cognos Inc.	664,910	26	18
Canadian Pacific Railway Ltd.	771,588	25	20
Alberta Energy Co. Ltd.	419,297	25	16
TELUS Corp.	958,336	23	34
Cameco Corp.	587,200	23	16
Franco-Nevada Mining Corp. Ltd.	917,694	22	16
Loblaw Companies Ltd.	403,768	21	15
MDS Inc.	1,036,596	20	16
TransAlta Corp.	942,527	20	16

## Schedule of Significant Investments (cont'd)

As at December 31, 2001	<b>Number of Shares</b>	<b>Market (\$ millions)</b>	<b>Cost (\$ millions)</b>
<b>COMMON STOCKS</b>			
<b>Canadian (cont'd)</b>			
Celestica Inc.	293,500	19	11
Fairmont Hotels & Resorts Inc.	491,704	19	10
Inco Ltd.	673,612	18	20
Power Financial Corp.	469,400	18	11
Molson Inc.	610,130	17	7
Placer Dome Inc.	922,890	16	20
Canadian Natural Resources Ltd.	406,685	16	12
CAE Inc.	1,359,460	16	11
Shaw Communications Inc.	470,619	16	11
Investors Group Inc.	579,652	15	12
Canadian Tire Corp. Ltd.	551,500	14	11
Canada Life Financial Corp.	317,065	14	8
Great-West Lifeco Inc.	401,626	14	6
NOVA Chemicals Corp.	393,349	12	12
Quebecor World Inc.	331,765	12	10
Onex Corp.	543,036	12	8
Royal Group Technologies Ltd.	364,555	11	9
Clarica Life Insurance Co.	210,095	11	6
Imperial Oil Ltd.	240,862	11	5
C.I. Fund Management Inc.	831,390	10	11
Zarlink Semiconductor Inc.	564,770	10	11
Finning International Inc.	510,540	10	7
ATS Automation Tooling Systems Inc.	444,475	8	13
Hudson's Bay Co.	392,187	6	10
<b>Foreign</b>			
Citigroup Inc.	631,474	51	37
Microsoft Corp.	453,652	48	48
General Electric Co.	628,971	40	38
International Business Machines Corp.	206,246	40	30
Intel Corp.	711,856	36	38
Exxon Mobil Corp.	566,376	35	32
Pfizer Inc.	485,379	31	25
Merck & Co Inc.	324,049	30	34
BP PLC	2,443,852	30	32
SBC Communications Inc.	473,177	30	30
Lilly (Eli) and Co.	198,471	25	23



## Schedule of Significant Investments (cont'd)

As at December 31, 2001	<b>Number of Shares</b>	<b>Market (\$ millions)</b>	<b>Cost (\$ millions)</b>
<b>COMMON STOCKS</b>			
<i>Foreign (cont'd)</i>			
Verizon Communications Inc.	312,227	24	23
American Home Products Corp.	243,379	24	17
GlaxoSmithKline PLC	563,124	23	23
HSBC Holdings PLC	1,221,170	23	21
Wal-Mart Stores Inc.	245,860	23	18
Total Fina Elf SA	99,519	23	13
Royal Dutch Petroleum	276,702	22	24
Novartis AG	381,500	22	22
Vodafone Group PLC	5,301,031	22	18
United Technologies Corp.	192,984	20	14
AOL Time Warner Inc.	376,212	19	25
Fannie Mae	150,538	19	19
Johnson & Johnson	197,897	19	16
Philips Electronics NV	394,791	19	14
Toyota Motor Corp.	435,700	18	22
Home Depot Inc.	216,821	18	16
PepsiCo Inc.	229,696	18	15
Bank Of America Corp.	166,407	17	13
Merrill Lynch & Co.	187,683	16	15
Diageo PLC	882,696	16	12
First Data Corp.	125,180	16	8
American International Group Inc.	118,176	15	15
FleetBoston Financial Corp.	250,410	15	14
Telfonica SA	708,159	15	13
Nokia Corp.	374,186	15	11
Target Corp.	228,049	15	11
Cisco Systems Inc.	482,301	14	13
Vivendi Universal SA	159,374	14	13
Minnesota Mining and Manufacturing Co.	73,553	14	11
ABN AMRO Holding NV	519,697	13	16
Bristol-Myers Squibb Co.	157,329	13	14
ING Groep NV	319,470	13	14
E.ON AG	151,874	13	12
Procter & Gamble Co.	107,055	13	11
Endesa SA	495,341	12	15
AXA Financial Inc.	349,063	12	13
Nestle SA	35,480	12	12
Viacom Inc.	165,542	12	12

## Schedule of Significant Investments (cont'd)

As at December 31, 2001	<b>Number of Shares</b>	<b>Market (\$ millions)</b>	<b>Cost (\$ millions)</b>
<b>COMMON STOCKS</b>			
<i>Foreign (cont'd)</i>			
Akzo Nobel NV	166,141	12	11
Philip Morris Companies Inc.	169,562	12	11
Sony Corp.	164,700	12	10
Tyco International Ltd.	123,155	12	10
BNP Paribas	83,706	12	9
Allianz AG	28,518	11	14
Heinz (HJ) Co.	169,925	11	12
Texas Instruments Inc.	256,402	11	10
Coca Cola Co.	132,314	10	10
Telecom Italia SPA	785,460	10	10
Aventis SA	85,696	10	9
ChevronTexaco Corp.	72,957	10	9
Morgan Stanley Dean Witter & Co.	110,131	10	9
Tesco PLL	1,675,558	10	9
UBS AG	120,085	10	9
Alcatel	356,656	10	8
Heineken NV	160,218	10	6
AT&T Wireless Services Inc.	381,352	9	13
Roche Holdings AG	80,207	9	12
Oracle Corp.	359,875	8	14
National Grid Group PLC	836,715	8	11
Hypovereinsbank AG	140,300	7	12

## Schedule of Significant Investments (cont'd)

As at December 31, 2001	<b>Number of Shares</b>	<b>Market</b> (\$ millions)	<b>Cost</b> (\$ millions)
<b>POOLED REAL ESTATE FUND</b>			
<i>Canadian</i>			
Penreal Properties Fund II Ltd.	4,000,000	24	20
BG Preeco 7 Ltd.	20,000,000	21	20
<b>POOLED EQUITY FUNDS</b>			
<i>Foreign</i>			
Barclays Global Investors Canada Ltd., Hedged Synthetic US Equity Index Fund	29,514,434	775	806
Barclays Global Investors Canada Ltd., Hedged Synthetic EAFE Equity Index Fund	28,521,470	507	537

As at December 31, 2001	<b>Coupon %</b>	<b>Par value</b> (\$ millions)	<b>Market</b> (\$ millions)	<b>Cost</b> (\$ millions)
<b>FIXED INCOME</b>				
<i>Canadian bonds</i>				
Special Ontario Government Debentures	9.50 – 16.95	1,598	2,243	1,744
Government of Canada (2003 – 2026)	4.25 – 10.50	677	798	713
Province of Ontario (2008 – 2027)	5.70 – 8.50	44	50	50
Toronto Dominion Bank (2010 – 2049)	6.00 – 6.60	26	27	26
Province of New Brunswick (2009 – 2010)	5.25 – 6.38	24	25	24
GMAC of Canada Ltd. (2003 – 2004)	5.80 – 6.75	22	23	22
Canadian Imperial Bank of Commerce (2011 – 2014)	7.00 – 9.65	19	21	21
Bank of Montreal (2008 – 2049)	5.65 – 6.90	20	20	20
Province of Quebec (2009 – 2026)	5.50 – 8.50	19	20	20
Royal Bank of Canada (2009 – 2016)	6.05 – 7.18	15	15	15
Bank of Nova Scotia (2012 – 2014)	5.75	13	13	13
Household Financial Corporation (2004 – 2006)	5.73 – 6.00	12	12	12
Province of British Columbia (2009 – 2012)	5.75 – 6.38	10	10	10
<i>Canadian short-term investments</i>				
Government of Canada Treasury Bills			78	78
Royal Bank of Canada			37	37
Phillips Hager & North institutional short term investment fund			29	29

## Historical Review

(\$ millions)	2001	2000	1999	1998	1997	1996	1995
<b>CHANGES IN NET ASSETS</b>							
<i>Income</i>							
Net investment income	(359)	654	970	867	981	1,027	979
Contributions							
Members	54	60	131	137	141	129	155
Employers	127	132	132	137	127	40	63
Unfunded liability payments	40	38	36	34	24	–	–
Transfers from other plans	10	17	36	2	2	54	1
<b>Total Income</b>	<b>(128)</b>	<b>901</b>	<b>1,305</b>	<b>1,177</b>	<b>1,275</b>	<b>1,250</b>	<b>1,198</b>
<i>Expenditures</i>							
Pensions payments	283	250	213	177	140	105	74
Termination payments and transfers	145	202	135	93	154	38	17
Operating expenses	20	18	17	17	15	15	12
<b>Total Expenditures</b>	<b>448</b>	<b>470</b>	<b>365</b>	<b>287</b>	<b>309</b>	<b>158</b>	<b>103</b>
<b>INCREASE IN NET ASSETS</b>	<b>(576)</b>	<b>431</b>	<b>940</b>	<b>890</b>	<b>966</b>	<b>1,092</b>	<b>1,095</b>
<b>NET ASSETS</b>							
<i>Investments</i>							
Special Ontario Government debentures	2,251	2,322	2,304	2,639	2,562	2,457	2,407
Cash and short-term investments	196	515	192	210	200	171	97
Bonds	664	544	549	483	621	404	341
Real return bonds	494	498	442	420	341	289	89
Equities – Canadian	2,193	3,180	2,876	2,247	2,314	2,028	1,601
Equities – foreign	3,550	2,884	3,146	2,574	1,654	1,331	1,087
Real estate	45	43	32	26	15	1	–
	<b>9,393</b>	<b>9,986</b>	<b>9,541</b>	<b>8,599</b>	<b>7,707</b>	<b>6,681</b>	<b>5,622</b>
<i>Contributions receivable from:</i>							
Members	6	7	7	13	14	11	11
Employers	21	19	22	19	21	20	19
<i>Due from Ontario Pension Board</i>	–	–	–	–	–	64	32
<i>Capital assets</i>	12	5	5	3	4	4	3
<b>TOTAL ASSETS</b>	<b>9,432</b>	<b>10,017</b>	<b>9,575</b>	<b>8,634</b>	<b>7,746</b>	<b>6,780</b>	<b>5,687</b>
<b>LIABILITIES</b>	<b>(6)</b>	<b>(15)</b>	<b>(4)</b>	<b>(3)</b>	<b>(5)</b>	<b>(5)</b>	<b>(4)</b>
<b>NET ASSETS</b>	<b>9,426</b>	<b>10,002</b>	<b>9,571</b>	<b>8,631</b>	<b>7,741</b>	<b>6,775</b>	<b>5,683</b>
Actuarial asset value adjustment	191	(706)	(928)	(926)	(776)	(596)	(136)
Actuarial value of net assets	9,617	9,296	8,643	7,705	6,965	6,179	5,547
Accrued pension benefits	7,832	7,713	7,242	7,201	6,648	6,180	6,306
<b>SURPLUS (DEFICIENCY)</b>	<b>1,785</b>	<b>1,583</b>	<b>1,401</b>	<b>504</b>	<b>317</b>	<b>(1)</b>	<b>(759)</b>
<b>PERFORMANCE (%)</b>							
Rate of return	(3.5%)	7.0%	11.4%	11.3%	14.7%	18.3%	21.7%
After inflation	(4.2%)	3.8%	8.8%	10.3%	14.0%	16.1%	20.0%
Benchmark	(4.4%)	3.3%	14.6%	13.2%	13.7%	17.1%	17.7%
After inflation	(5.1%)	0.1%	12.0%	12.2%	13.0%	14.9%	16.0%

## The OPTrust Board of Trustees

The OPSEU Pension Trust was established to give plan members and the Government of Ontario an equal voice in the administration of the OPSEU Pension Plan through joint trusteeship. As sponsors, the Government of Ontario and the Ontario Public Service Employees Union (OPSEU) each appoint five Trustees to the OPTrust Board. One Government appointee and one OPSEU appointee fill the positions of Chair and Vice-Chair, with the roles alternating between Government and OPSEU appointees every two years.

The Trustees have a fiduciary responsibility for all aspects of the Plan's operation. They review OPTrust's investment policies and performance to ensure that money is available to pay members' and pensioners' benefits. They make sure that pension liabilities are properly evaluated and that the Plan's financial statements accurately reflect OPTrust's financial position. The Trustees also monitor the Plan's administration to satisfy themselves that members and pensioners receive the benefits to which they are entitled, and timely and effective information and services.

To fulfill these responsibilities, the Board retains independent legal, actuarial, investment and accounting professionals and an independent custodian. The Trustees also set policy and strategic priorities and monitor the performance of the OPSEU Pension Trust through its senior management team.

### STANDING COMMITTEES OF THE BOARD

The Trustees have established four standing committees:

- The *Administration Committee* oversees the Plan's operations including its business plans and operating and capital budgets. It monitors and makes recommendations on administrative policies, plan amendments and legislative changes, and oversees the preparation of actuarial valuations.
- The *Audit Committee* ensures that OPTrust's financial statements are complete and objective. It reviews the Plan's accounting and financial procedures, ensures OPTrust's systems and processes comply with legal and professional standards, and oversees OPTrust's risk management program.
- The *Investment Committee* monitors the performance of the OPSEU Pension Trust Fund and its custodian and investment managers, and ensures compliance with regulations and OPTrust's investment policies. It researches and recommends changes in investment policies, the Plan's asset mix or investment managers.
- The *Adjudication Panel* gives plan members and pensioners access to an impartial appeals process in the event of disputes concerning OPTrust's decisions on eligibility, benefit entitlements or other pension-related rights under the OPSEU Pension Plan.

## Members of the Board of Trustees

At December 31, 2001

**Stanley F. Sanderson, Chair\*\***  
Former Vice-President (retired)  
Assante Capital Management Ltd.

**Paul Sharkey, Vice-Chair\***  
Court Interpreter/Translator  
Ministry of the Attorney General

**Robert Bellamy\*\***  
Former Vice-Chairman (retired)  
Burns Fry Limited

**Jennifer Brown\*\***  
Vice-President, Pensions  
Ontario Municipal Employees  
Retirement System (OMERS)

**Heather Gavin\***  
Administrator, Central Services  
Ontario Public Service Employees  
Union (OPSEU)

**Don Jordan\***  
Occupational Health and Safety  
Officer  
Ministry of Labour

**Daniel Kott\***  
Forest Technical Specialist  
Ministry of Natural Resources

**David Rapaport\***  
Project Co-ordinator  
Ministry of Education

**Tony Ross\*\***  
Former Vice-Chair (retired)  
Merrill Lynch Canada

Four Trustees left the Board in 2001:  
**Jordan Berger\***  
Supervisor, Strategic Planning and  
Policy Development  
Ontario Public Service Employees  
Union (OPSEU)

**Len Hupet\***  
First Vice-President/Treasurer  
Ontario Public Service Employees  
Union (OPSEU)

**Janine Johnson\***  
Northern Caseworker  
Ministry of Community and  
Social Services

**Paul Scott\*\***  
President and CEO  
Ontario Clean Water Agency

\* OPSEU Appointee  
\*\* Government of Ontario Appointee

### PROFESSIONAL ADVISORS TO THE TRUSTEES

Actuary  
**Buck Consultants**

Auditors  
**PricewaterhouseCoopers LLP**

Investment Consultants  
**Hewitt Associates (James P. Marshall)**

Legal Counsel  
**Koskie Minsky**

MANAGEMENT, ADMINISTRATION  
DIVISION  
**Colleen Parrish, LLB**  
President and Plan Manager

**Robert Breens**  
Director, Policy, Communications and  
Trustee Support

**Charlie Eigl, CA**  
Treasurer and Director, Finance  
and Administrative Services

**Bill Foster**  
Director, Member and Pensioner Services

**Graeme Isdale**  
Director, Information Technology

To May 2001:  
**Dan McArthur**  
Director, Policy, Communications  
and Trustee Support

MANAGEMENT,  
INVESTMENT DIVISION  
**Morgan Eastman**  
Chief Investment Officer

**Bob Korkie**  
Head, Investment Research and  
Risk Management

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OPSEU Pension Trust

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