

# OPTions

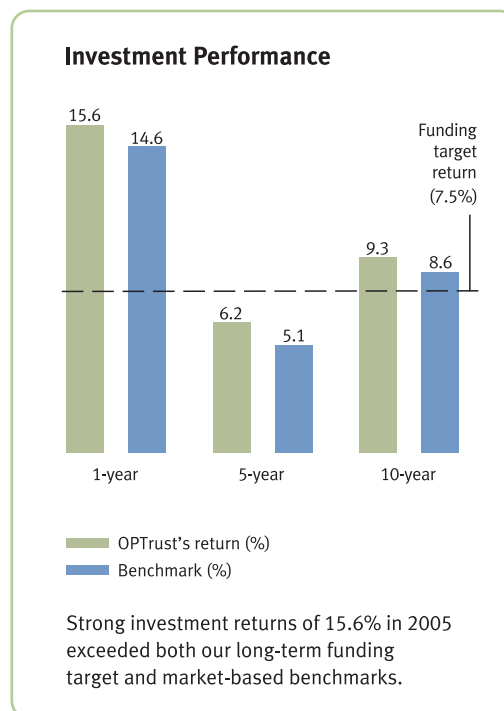
A newsletter  
for the members  
of the OPSEU  
Pension Trust

## Strong 2005 Results and Continued Evolution of the Investment Program at OPTrust

- **OPTrust's 15.6% investment return increases the Plan's net assets to \$11.8 billion.**
- **Since its inception in 1995, OPTrust has achieved an average annual return of 10.4% and has achieved an average annual rate of return of 9.4% over the past ten years.**

Strong investment returns for a third consecutive year in a row helped increase the OPSEU Pension Plan's net assets by \$1.6 billion in 2005. As a result, OPTrust ended our 11th year of operations with net assets of \$11.8 billion, up from \$4.6 billion at the inception date.

In 2005, OPTrust registered an overall investment return of 15.6%, which also beat our weighted market benchmark return of 14.6%. The benchmark reflects the overall performance of the markets in which we invest, and serves as a



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## OPTrust Achieves Settlement in Nortel Securities Class Action

**O**n February 8th, OPTrust announced the conditional settlement of a major U.S. securities class action against Nortel Networks. Under the settlement, Nortel will pay financial compensation of approximately US\$ 2.4 billion (based on current share prices), consisting of US\$ 575 million in cash and approximately 628 million common shares.

Nortel's insurers will contribute an additional US\$ 228.5 million.

Among the allegations in the class action is that between October 24, 2000 and February 15, 2001, Nortel used improper accounting practices and issued false and misleading statements to investors about its financial

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position and performance. The result, the suit alleges, was to artificially inflate Nortel's share price during this "class period."

As lead plaintiff, OPTrust sought to recover damages for all investors who purchased Nortel shares over the 16-week class action period in 2000–2001. OPTrust incurred a loss of approximately CDN\$ 52 million on the Nortel shares we purchased between October 24, 2000 and February 15, 2001.

"Our role in the suit was consistent with OPTrust's interests as a major institutional investor with a long-term stake in the proper functioning of capital markets," said Heather Gavin, Chief Administrative Officer and Plan Manager of OPTrust. "We're especially mindful of ensuring the long-term viability and health of the OPSEU Pension Plan, and that our ultimate responsibility is to our members and pensioners."

Compensation will be shared between the members of the OPTrust class, which covers the class period October 24,

2000 to February 15, 2001, and the members of a subsequent class covered by a second securities class action for the period April 24, 2003 to April 27, 2004 (the "Nortel II litigation"). While we actively pursued recovery of damages experienced by the Plan, these losses did not affect OPTrust's capacity to meet its pension obligations.

Corporate governance discussions between the plaintiffs and Nortel are ongoing. The settlement is subject to court approval and to applicable regulatory approvals.

As of December 31, 2005, OPTrust continued to own \$11 million in Nortel shares. OPTrust is a broadly diversified pension fund with holdings in most major indices, including the TSX composite index, and in major corporations around the world. Our professional investment managers may decide to purchase or sell Nortel shares at various times, based on publicly available information and their professional appraisal of the markets. OPTrust continues to monitor all investment activity and is not treating Nortel differently in this respect.

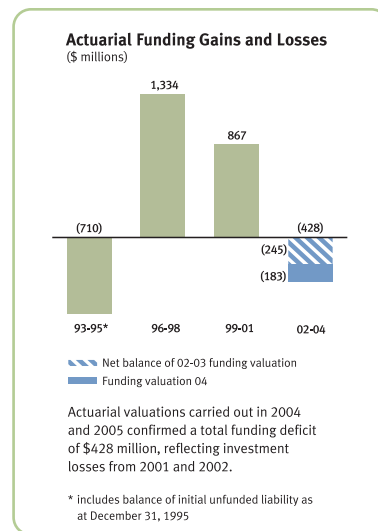
## OPTrust's Funding Outlook

OPTrust takes a prudent approach to managing the Plan's funding situation. The most recently filed funding valuation revealed a funding shortfall of \$428 million, largely created by the investment losses of 2001 and 2002. The good news is that we have since had three years of strong investment returns. We have \$11.8 billion in assets. As well, the Plan sponsors set aside gains in the good years to offset the bad. Current reserves total \$446 million, which is more than sufficient to offset the funding loss.

Like most major pension plans, OPTrust uses a technique called "smoothing" to spread each year's unplanned investment gains or losses over a five-year period. This process lessens the effect of sometimes significant fluctuations in investment returns on the Plan's funded position.

As a result of smoothing, investment losses from 2001 and 2002 continue to have an impact on the Plan's funded position. Actuarial valuations filed as at the end of 2003 and 2004 confirmed a total deficit of \$428 million. This deficit is being paid down through payments from stabilization funds which the employer and employee sponsors prudently set aside from gains arising out of the 2001 funding valuation.

In 2005, OPTrust earned significantly more than it requires to fund the Plan's pension obligations. Accordingly, if the Plan achieves its long term target rate of return on investments over the next two years leading up to the December 31, 2007 funding valuation, the \$428 million deficit at the end of 2004 could be substantially eliminated. In the meantime, members and employers have the security of significant stabilization funds to help offset future pressure on contribution rates.



performance reference point for our actively managed portfolio by indicating what we could have earned through a methodical, passive approach to investing.

**OPTrust's 15.6% return in 2005 also bettered the Plan's funding target return of 7.5%. This target is the average return the Plan needs to achieve over the long-term to pay the projected cost of members' pensions.**

"2005 was a year of significant progress for OPTrust, as strong investment returns further strengthened the Plan's ability to keep our pension promise to members and retirees," said Deborah Stark, Chair of OPTrust's Board of Trustees.

Since OPTrust's launch in 1995, our investment portfolio has exceeded the 7.5% target return eight years out of 11. Despite volatile market conditions, the Plan has achieved an average annual return of 10.4% over the eleven-year period, compared to the benchmark average of 9.4%.

The Plan's above-benchmark performance in 2005 was largely driven by OPTrust's global equity and real estate portfolios, which outperformed their benchmarks by 2.1% and 8.5% respectively.

OPTrust's Canadian equities and fixed income investments also performed well in absolute terms, generating returns of 22.1% and 9.7% respectively. However, our Canadian equity portfolio underperformed its benchmark return of 23.4%, while the fixed income portfolio's performance equalled that of the benchmark.

## Investment Highlights

During 2005, the implementation of major changes to the OPTrust investment portfolio continued based on a restructuring plan approved by the Board of Trustees in 2003.

The major initiatives in 2005 were a significant increase in our real estate holdings, approval of a target allocation to private equity and infrastructure investments, the establishment of a Private Markets Group to manage these investments, and a temporary increase in the balances of short-term fixed income and cash held by the Plan.

## Funding & Contribution Rates

The latest valuation showed a net funding deficit of \$428 million at the end of 2004 – representing approximately 4% of the total assets in the fund at that time – compared with a deficit of \$255 million at the end of 2003. This amount did not include net deferred gains of \$69 million at the end of 2004 that will eventually be used to reduce the unfunded liability.

Despite the growth in the funding deficit, there are sound reasons for confidence in the overall financial strength of the Plan. First, the Government of Ontario and OPSEU together have \$446 million in their rate stabilization funds at the end of 2005, an amount that exceeds the total funding deficit.

A second reason for optimism is that net deferred investment gains increased to \$899 million at the end of 2005 and will have an increasingly positive impact on our funding position as they are recognized over the next four years.

Contribution rates remained at normal levels for both members and employers in 2005. Based on current projections, if the Plan achieves its targets for investment returns during the period leading up to December 31, 2007, (the next required time for an actuarial valuation), and if rate stabilization funds are not used for other purposes, members may look forward to stable contribution rates and pension benefits through the end of the decade.



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**Richard Johnston**

“I hope my overall governance experience, past responsibility for the CAAT pension plan and oversight of its divestment to a jointly trustee structure, and my experience as a provincial politician working in and chairing multi-party committees will prove useful to the trust and serve the interests of its members.”



**Ruth Galinis**

“I am honoured to be appointed to the OPSEU Pension Trust as the first retiree trustee. As a former union activist I have always been interested in how our pension plan has invested the fund to ensure that the funds are available to pay the pensions that have been promised.”

## New Board Trustees

In January we announced the appointment of a former Ontario politician and a retired union activist to our Board of Trustees. The new trustees are Richard Johnston, member of the Ontario legislature from 1979 to 1990 and former contender for the New Democratic Party leadership; and Ruth Galinis, a former government employee and retired OPSEU official.

Richard Johnston, appointed to the OPTrust board by the Government of Ontario, was an administrator and counsellor at Trent University before becoming a social worker specializing in helping the elderly. As an MPP, he crusaded for improved benefits for the poor and disabled. He served as Chair of the Ontario Council of Regents for the Colleges of Applied Arts and Technology in Ontario from 1991 until 1995, President of the First National Technical Institute on the Tyendinaga Mohawk Territory and a director at Trent University from 1995 to 1998, and President of Centennial College in Scarborough from 1998 to 2004. Mr. Johnston currently operates a vineyard in Prince Edward County.

Ruth Galinis, appointed to the OPTrust board by OPSEU, was recently awarded lifetime membership in the union. Starting her career as a human rights officer in the Ministry of Labour, she worked as a regional consultant consecutively with the Ministry of Citizenship and Immigration, Ministry of Culture and Ministry of Tourism and Recreation. She served as an OPSEU local representative in Sault Ste. Marie and the labour representative on the Sault College board of governors. Ms. Galinis is the first OPSEU retiree appointed to the OPTrust board.

Deb Stark, Board Chair, commented that OPTrust’s governance model is based on appointing trustees who understand the pension needs of Plan members. “We believe that complex investment recommendations must make sense to non-financial trustees to make sense to the plan,” she explained. “The trustees have access to all the expertise they require to evaluate the risks and potential returns of different investment assets and make the right decisions.” OPTrust currently retains more than 20 external legal, financial, and investment advisors and continues to expand its pool of investment related expertise.

# Service Spotlight

Welcome to a new feature in *OPTions* where we will be sharing with you our administration's performance against set service standards.



**W**e have finally eliminated the backlog of files we inherited when the plan split, and having worked on new administrative systems, we are very excited about the opportunity to provide our members with the positive service experiences they deserve from their pension plan.

When we set out to establish service standard targets, we looked at the processing of the case from the member's perspective, bearing in mind your needs and expectations. Based on feedback we received from you on the phone, at our Direct Contact presentations and through the service satisfaction surveys you responded to, standards were established taking into consideration the steps necessary to complete the case, but more importantly, incorporating what we heard from you.

The focus of this premiere article is on end to end processing – from the time the case is

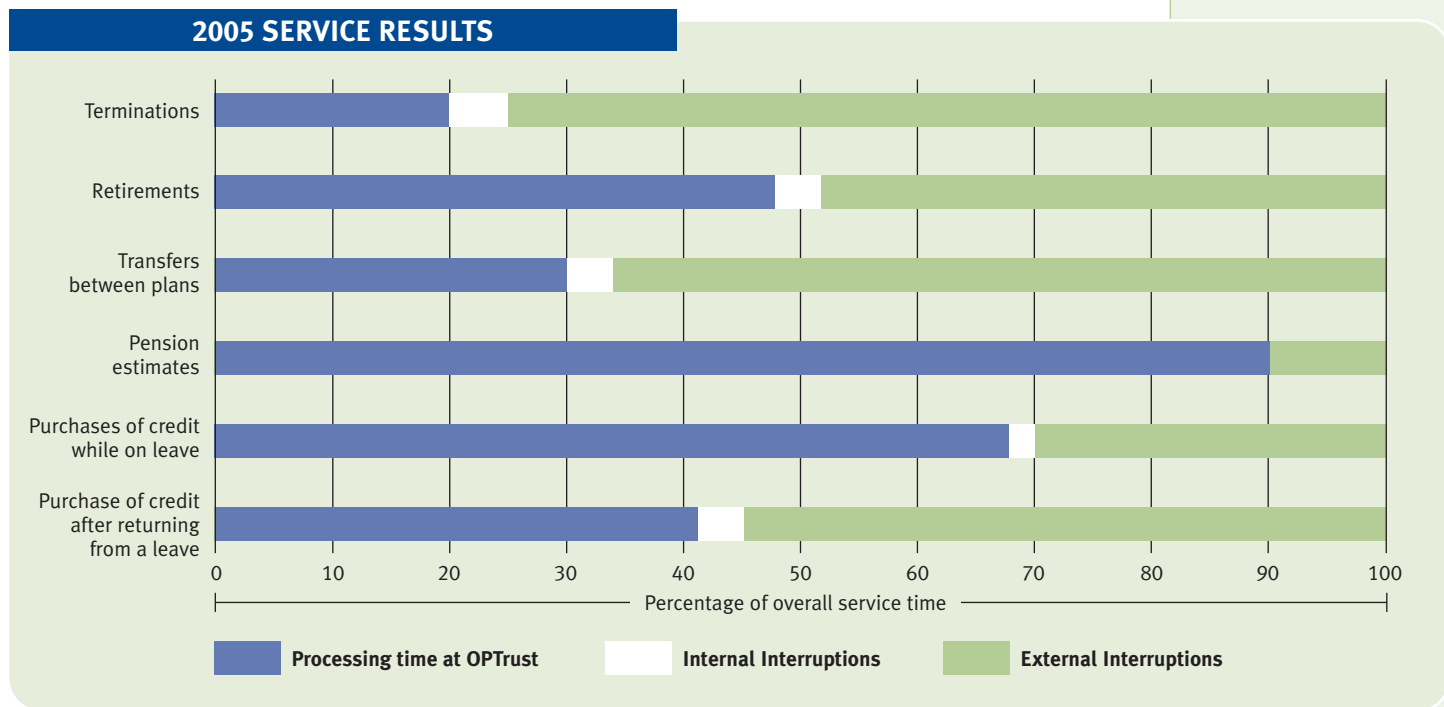
opened in our office until the case is closed, including the period when you select your option. It is important that you understand how long your case resides with us, and how long it resides with outside sources to account for the total processing time.

While a case is being processed, interruptions often occur that cause the case to be paused. **Internal interruptions** occur while an organization other than OPTrust works on your case, often to obtain additional information from an employer, such as salary confirmations.

**External interruptions** occur in situations where we must wait for you to select an option or for your financial institution to complete a step. When this occurs, the time is not counted towards our service standards.

The following graph provides a breakdown of the percentage of time each case was in the hands of OPTrust.

In future issues of *OPTions*, we will highlight specific cases to enable you to understand the work involved in completing your case, including what we are doing to resolve existing issues and improve our performance.



# Facts About... Your 2005 Annual Pension Statement (APS)

## VIEW YOUR APS ONLINE

Why wait for Canada Post? We've made it easy for members to view their APS anywhere, anytime. Simply log on to our secure *Online Services* website to access your APS at your leisure.

- To register for *Online Services*, you will need the “contributions and interest” amount found on your 2003 or 2004 statement, to verify your identity. If you don't have a copy of your most recent APS, contact our Member and Pensioner Services staff at 416-681-6100 or 1 (800) 637-0024, and they will help you register online.
- You can check, change or update your beneficiary information through OPTrust's secure *Online Services*. Or you can complete an *Identifying Benefit Recipients* (IBR) form and return it to us. Forms can be downloaded from the OPTrust website at [www.optrust.com](http://www.optrust.com).

**Note:** You cannot update your beneficiary information by marking the changes on your APS. OPTrust can only update this information if you make the change through our secure *Online Services* or if we receive a signed copy of the IBR form.

Your *Annual Pension Statement* has undergone a makeover, but the information about your earned pension with OPTrust remains the same.

## HERE ARE SOME FAST FACTS ABOUT YOUR 2005 APS

- All active and divested members will receive an APS.
- Statements are mailed out in four batches, starting in late April to mid-June. Mailing dates are listed on our website.
- Your APS provides you with an account of your pension as of the end of 2005. The “total credit” listed on your statement includes any buyback credit that you have paid for as of December 31, 2005. This is used to calculate your “Pension at age 65 based on your credit at 31-DEC-2005.” Credit you bought back in 2005 is also shown separately under “2005 Buybacks and Transfers.”
- Any remaining credit you have agreed to buy back is included in the “future credit” used to estimate your future pension if you work until you are eligible to retire. By providing you with credit information, your APS can help you to monitor your buyback payments, make financial decisions and plan for your retirement. In March, OPTrust mailed separate *Annual Buyback Statements* to every member who had an ongoing buyback at the end of 2005. This statement, like the APS, is available through the secure *Online Services* section of our website.



## YOU ASKED

### **My Annual Pension Statement lists my total contributions plus interest. Is this how much my pension is worth?**

No. The OPSEU Pension Plan is a “defined benefit” plan. This means that once you are vested, your pension is calculated using the Plan’s benefit formula (see OPTrust Pension Basics below). As a result, your pension is based on: i) your years of credit in the Plan; and ii) your best consecutive five years’ average annual salary rate.

Members who leave the Plan before they are vested receive a refund of their contributions plus interest. You are vested when you have two years of credit or continuous membership in the Plan.

### **My statement lists my pension eligibility date. Does it make a difference if I terminate my employment at the start or the end of the month?**

Yes it does make a difference. If you terminate at the beginning of the month, you will not be receiving a salary (because you are no longer employed), but your pension will not start until the first day of the month following your termination date. Your pension is paid on the 26th day of each month. It is best to terminate at the end of the month so that you will not have any gaps in income. It is a good idea to notify your employer/Human Resources department to begin the process of applying for your pension up to six months before your planned termination date. This will help ensure that there is plenty of time to make the necessary arrangements – and that you receive your first pension payment on time. Waiting until only a few weeks before your termination date could cause delays in your first payment.

### **Clarification on Bill 211 and the elimination of mandatory retirement at age 65:**

In the last issue of *OPTions* (Issue 37, Winter 2006), we noted that Bill 211, eliminating mandatory retirement at age 65, had passed successfully. However, we should also have indicated that the bill would not go into effect until December 2006.

We regret any confusion that may have resulted from this oversight.

## OPTrust Pension Basics

### **YOUR PENSION IS BASED ON THIS FORMULA:**

**2% of average salary** (typically the average of your highest consecutive five years of annualized salary rate)

**times** your credit (years and months of credited service in the Plan)

**less** CPP integration (a reduction at age 65)

#### **Important plan features:**

- Lifetime income
- Inflation protection
- Survivor benefits
- Early retirement options
- Portability options
- Service buyback options

#### **Related features for those who qualify include:**

- Health/dental benefits (please note that these benefits are provided by your employer, not by OPTrust)
- Disability benefits

# Updating Your Info With Your Employer?

If you recently updated personal information with your Human Resources department for entry to the Workforce Information Network (WIN), it is important to know that the WIN system is not connected to OPTrust, and your information is not automatically updated in OPTrust's records. You will need to contact OPTrust separately to update any personal information.

To ensure that OPTrust receives any changes to your personal information, you can make the changes quickly and easily by going to [www.optrust.com](http://www.optrust.com) and registering for *Online Services*, or contact our Member and Pensioner Services staff at 416-681-6100 or 1 (800) 637-0024.

Please note that for reasons of privacy and to protect your personal information, OPTrust does not share your personal data.

## Whitby Mental Health Centre Employees Remain OPTrust Plan Members

331 employees at the Whitby Mental Health Centre (WMHC) will maintain their membership in the OPSEU Pension Plan following its transfer from the provincial government to the public hospital system. Their continued membership in the Plan will be grandfathered under a special provision in the Plan, which is important in order to preserve their pensions rather than dividing them and diminishing their overall value. Employees hired after the transfer of the WMHC on March 27, 2006 will not be eligible to join the OPSEU Pension Plan. They will join the Hospitals of Ontario Pension Plan.

**“This is great news for employees at the Centre because it will allow them to continue contributing to the same pension plan,” says local president Joan Gates. “Maintaining the stability of their members’ pensions is of paramount importance to OPTrust, and they continue to show their commitment to their membership in the face of change.”**

The Centre's board and management are pleased that through voluntary recognition, the vast majority of the Centre's employees can maintain membership in the OPSEU Pension Plan.

## OPTions

*OPTions* is a newsletter for members of the OPSEU Pension Trust. Its goal is to provide useful and timely information about the OPSEU Pension Plan.

If there is any conflict between statements in this newsletter and the legal documents of the OPSEU Pension Plan, the legal documents will prevail. Please direct any questions about your personal benefits under the Plan to OPTrust. You should contact OPTrust before making any pension-related decisions.

If you have any questions or comments, please contact us.

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