



*Meeting*  
**your goals**  
*of service and security*



Building the Trust

With assets under management exceeding \$7.7 billion, the OPSEU Pension Trust (OPT) manages one of Canada's largest pension funds and administers the OPSEU Pension Plan, a defined benefit plan covering more than 62,000 members and pensioners.

**This is what we stand for:**

- providing the finest service and communications to our members and pensioners
- generating a rate of return on investments that finances pension obligations, moderates contributions, and contributes to better benefits
- making joint trusteeship a reality in all we do — so that plan members and pensioners have a real voice in the administration of their plan and their pension fund.

Together, we will Build the Trust.

**Goals met in 1997**

**Realized** \$966-million growth – fund exceeds \$7.7 billion

**Improved** funded status – funding position best ever

**Enhanced** service – faster response, better communication

## FINANCIAL HIGHLIGHTS

(\$ Thousands)

As at December 31

	<b>1997</b>	1996
Net assets available for benefits	<b>\$7,740,542</b>	\$6,774,519
Total increase in net assets	<b>966,023</b>	1,091,351
Actuarial value of net assets available for benefits	<b>6,965,001</b>	6,178,636
Accrued pension benefits	<b>6,648,487</b>	6,179,957
Surplus (Deficiency)	<b>316,514</b>	(1,321)
Total portfolio return for the Fund	<b>14.7%</b>	18.3%

## MEMBERSHIP STATISTICS

	<b>1997</b>	1996
<b>Active members</b>		
Total at December 31	<b>53,067</b>	59,115
Number of new members enrolled	<b>1,110</b>	1,024
Number of members terminated or retiring	<b>7,158</b>	6,209
Net decrease in active membership	<b>(6,048)</b>	(5,185)
<b>Pensioners</b>		
Total at December 31	<b>9,001</b>	7,012
<b>Total Members and Pensioners</b>	<b>62,068</b>	66,127



### Net Assets Available for Benefits

(\$ Thousands)

As at December 31



*Working together: OPT Chair Jennifer Brown and Vice-Chair Grant MacGillivray. For OPT, one of Canada's largest public sector pension plans, joint trusteeship means that both sponsors — the Government of Ontario, and the Ontario Public Service Employees Union (OPSEU) — are highly motivated to ensure efficient and prudent management of the plan.*

## *Every day we listened carefully...*

**1997 marked our third year of operation. As we continued to build the OPSEU Pension Trust, we directed our efforts to one end — meeting the goals of our members, pensioners and sponsors. Every day, we listened carefully and worked to achieve the goals that are important to them.**

The pension benefit is a critical component in the personal planning — and goals — of our members and pensioners. They need to know this benefit is secure, and that they will be served in a professional and timely manner when they seek information about their pension, when they retire, or transfer to or from the plan.

The pension benefit is also a critical element in the employer-employee relationship. Plan sponsors representing the Government of Ontario and the Ontario Public Service Employees Union (OPSEU) need to know how the plan is meeting their goals through prudent investment, efficient administration and accurate communication.

1997 was in many ways a watershed year for OPT. As this report outlines, the Trust:

- generated a strong investment return for its third consecutive year
- completed a split of assets with the Public Service Pension Plan
- received the first of a series of employer payments to pay down its unfunded liability
- introduced technology and work design improvement to better serve members.

The OPSEU Pension Trust recorded its third straight year of double-digit investment returns. It's important to remember that the OPT exists to deliver the pension promise in good and bad economic times. Our long-term economic assumptions are more conservative than our recent strong performance in the investment market — ensuring we can weather market volatility and are funded to meet future liabilities. The investment community is preparing for increased market volatility and single-digit returns in 1998. The strong returns in our first three years can cushion years of lower performance.

An increasingly mobile workforce and a major restructuring of Ontario's public service have increased the demand for service. Simply put, movement in and out of the pension plan is high — and our members have a keener interest in the place of their pension in their overall personal plans.

For the first time, we are able to report that our financial statements disclose a financial surplus of \$316 million. We are gratified to see the improvement in the OPT's financial position over such a short period.

At the same time, it is important to remember the difference between the snapshot presented in the financial statements and the long-term assessment of the pension plan captured in a funding valuation. The funding valuation is the only legally relevant basis for funding the pension plan. It tells us whether the OPT has funds to support the pension benefits owed to members and pensioners in the future. Today, our most recent funding valuations tell us that the OPSEU Pension Plan requires payments to

reduce an initial unfunded liability of over \$700 million. A stream of payments from the Government of Ontario will pay off the unfunded liability over time. More than \$24 million was paid in 1997. And the Plan was closer to being fully funded than at any time in its history. This report will provide further details on the important distinctions in method and economic assumptions used in the OPT's financial statements and funding valuations, and the progress made in both areas.

At OPT, the words “working together” are more than a catchphrase. Unlike many pension plans, OPT is jointly trustee. The result is that the two parties contributing to the fund — the employer (the Government of Ontario) and the plan members (represented by OPSEU) — share in the responsibility, risks and the rewards of administering the plan. This arrangement means that both sponsors are highly motivated to ensure efficient and prudent management of the plan.

Confronting issues from different perspectives makes our Board strong, and better able to serve OPT's membership and sponsors. We have proven we can work together constructively to advance the interests of the Trust.

We wish to thank our colleague trustees for their dedication and hard work in 1997. The demands on trustees, who serve in a voluntary capacity, are considerable. They must meet the highest standard of conduct known to law — the fiduciary obligation. We have found that the talents and principles of trustees appointed to OPT have proven more than equal to the task.

During the year, Len Hupet stepped down as Vice-Chair to meet the demands of his new role as Vice-President and Treasurer of OPSEU. Len provided exceptional leadership as the OPT's first Chair and also served as the first OPSEU-appointed Vice-Chair. We are delighted that Len remains to provide his wisdom as a Trustee. We've said regretful farewells to Trustees Qaid Silk and Pauline Lai, who made significant contributions to the work of the OPT, in particular through their respective roles on the Investment Committee and the Audit Committee.

We were pleased to welcome Stanley Sanderson to the Board, who brings his considerable experience in the financial sector to the Investment Committee.

Our fellow trustees Bruce Curwood, Heather Gavin, Stephen Huff, Ingrid Peters and Paul Scott served with distinction throughout the year on four standing committees and several special projects, and actively participated in the work of the full Board of Trustees.

We have also benefited from the knowledge and experience of our professional advisors, and we wish to thank James P. Marshall, Inc., Price Waterhouse, Buck Consultants and Koskie Minsky, for providing expert advice to allow informed decisions on investment, auditing, actuarial and legal issues.

Our special thanks also go to OPT staff, for their creativity and hard work during the past year.

In the coming year, the trustees will press ahead with strategies to enhance service and security. These include:

- consideration of computer systems to improve service through integration of OPT systems and databases
- continued diversification of the range of investment opportunities and vehicles
- examination of social and ethical investment issues
- implementation of work design improvements and continued efforts to enhance service.

As public awareness of pension issues grows, we also plan to participate at the national level in senate committee hearings on institutional investment, to ensure our plan, and its important role and structure, are clearly understood.

Most importantly, through prudent investment and first-rate plan administration and governance, we aim to continue to earn the trust of our membership and our sponsors. As we build the OPSEU Pension Trust, the goals of those we serve are always our goals.

Jennifer Brown, Chair

Grant MacGillivray, Vice-Chair

## *A secure fund: Meeting investment goals of return and risk control*

### Discussion and Analysis

OPT continued to diversify the strategy and mix of its investments during the year to take advantage of market trends — and control investment risk.

The most important investment goal is to exceed a 7.5% annual return (3.75% real return plus 3.75% inflation) used in the actuarial valuation of the fund's financial health. In addition, OPT aims to meet or exceed its Investment Benchmark representing the aggregate of market indices for each investment class. This benchmark reflects the asset mix policy established by the trustees.

OPT exceeded both of these investment goals in 1997.

A total portfolio return of 14.7 per cent was the most significant factor fuelling an increase in net assets available for benefits to \$7.7 billion at December 31, 1997 from \$6.8 billion the previous year.

The three-year average return for the fund was 18.1 per cent, with each year of OPT operation adding almost \$1 billion to the fund that supports our pension promise.

OPT and other investors benefited from a climate of moderate economic growth, low interest rates and low inflation in North America in 1997. At the same time, the investment community began to adjust its expectations in light of the potential impact of economic change in Hong Kong and countries such as Japan, Thailand and South Korea.

### Rate of return by investment class

**Fixed income** Our marketable fixed income portfolio, containing bonds and debentures issued by the Government of Canada, provinces of Canada, and leading corporations, returned 8.8 per cent. Declining interest rates in 1997 supported solid gains in marketable bond values; by contrast, shrinking spreads between various fixed income vehicles were also a factor in weaker performance relative to the market benchmark of 9.6 per cent.

OPT's non-marketable special Government of Ontario debentures returned 14.2 per cent. These bonds have a somewhat longer duration than those in the marketable fixed income portfolio. As in previous years, OPT is benefiting from the market favour shown to longer bonds.

**Canadian equity** Our investments in stocks and share issues of leading Canadian corporations returned 13.8 per cent in 1997. OPT's index component of this portfolio exploited strong overall growth in Canadian equity investments, while an underweight position in financial companies was a key factor in performance relative to the market benchmark of 15.0 per cent.

**Foreign equity** Our foreign equity portfolio realized a strong return of 22.1 per cent. The portfolio benefited from strong growth in U.S. and European economies, and was relatively underexposed to market decline in Asian countries, contributing to a return that exceeded the market benchmark of 20.9 per cent.

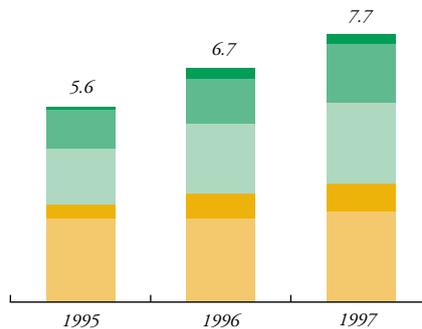
**Real return bonds and real estate** Our inflation-protection component returned 4.5 per cent, close to its benchmark of 4.7 per cent. This component acts as a hedge against future inflation risk, as these investment types tend to perform well in periods of higher inflation.

### Exceeding the Investment Benchmark

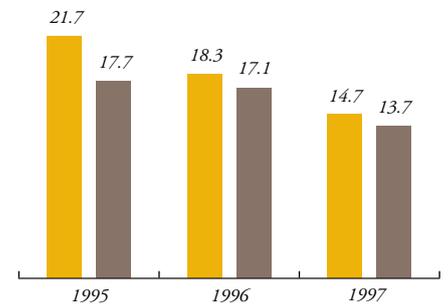
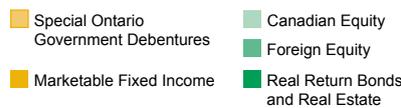
OPT's 1997 return of 14.7 per cent exceeded the overall Investment Benchmark of 13.7 per cent. This benchmark is an aggregate of market indices for each class of investments under the Trustee-approved asset mix policy. While performance varied by investment class, total performance put OPT ahead, demonstrating the benefits of a diversified portfolio in which stronger and weaker areas of investment performance balance each other.



**The Pension Promise: Investment growth and diversification help OPT meet the goals of members and sponsors by providing security for promised retirement benefits. In addition, the performance of our investments can serve to moderate contributions and support enhanced benefits — such as early retirement options. OPT has risen to the challenge to continue to provide excellent service during a period when many of our members are retiring early as a result of restructuring — people like Aurora Kohari, a clerk-receptionist at a mental health clinic. “I love my job... and I feel I’m contributing to a great cause,” she told us last fall. At the same time, Ms. Kohari saw the benefits of retiring early, during a time of uncertainty, with an unreduced pension under the time-limited Factor 80 provision. She was taking community college courses to enhance her skills in floral design, a small business she may expand in retirement. “OPT was very helpful when I called to ask questions about my pension,” said Ms. Kohari.**



**Investments**  
(\$ Billions at December 31)

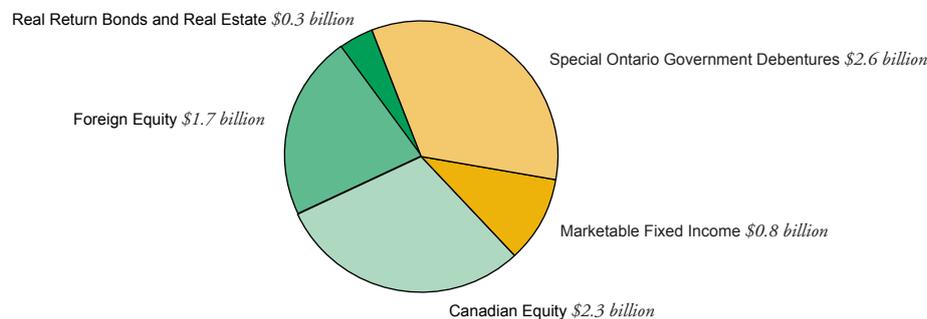


**Comparison of Benchmark Returns against Actual Returns**

Actual Benchmark

The OPT has consistently exceeded its investment benchmark.

When the fund was created, non-marketable Province of Ontario debentures represented the majority of assets. The fund's positive cash flow and its relatively young membership profile have supported a shift towards equities, which offer a superior return over the long term.



**1997 Asset Mix**  
(\$ Billions at December 31)

## Investment management

OPT investments continued to be externally managed by leading investment firms and held by an independent custodian, Royal Trust. OPT's own Investment Co-ordinator reports directly to the OPT Board of Trustees, monitoring fund investment practices and recommending strategies and policies.

With guidance from independent investment consulting firm James P. Marshall, and the OPT Investment Co-ordinator, the board retained external managers to invest on behalf of the OPSEU Pension Plan Fund in 1997 as follows:

- Canadian equities: TD Asset Management; Beutel Goodman & Co.; J.R. Senecal & Associates
- Foreign equities: Barclay's Global Investors; Gartmore Capital Management; Lazard Asset Management
- Active fixed income: Monrusco Associates; Phillips, Hager & North
- Real estate: Penreal Advisors and Beutel Goodman Real Estate Group.

## Risk management

Effective risk management is integral to the Plan's objective of creating a strong financial foundation — to ensure that defined pension benefits will be available to members in their retirement years.

Managing investment risk requires a blend of well-researched policies, constant monitoring and appropriate responses. The tools used by OPT to control investment risk include:

- the use of both active and passive management techniques
- diversification of investments geographically and across a wide range of investment vehicles and approaches
- high credit standards for security issues
- limitations on the amount of investment in any one entity and on the proportion of shares or debentures of any one company that OPT can own
- constant forecasting of potential cash needs and the cash flow or cash instruments available to meet demands
- continuous monitoring of investment results and asset mix (including foreign exposure)
- continuous monitoring of, and high standards of business conduct for, all business partners
- independent research on potential areas of investment and on the track record of the OPT in matters such as relative investment costs incurred by the OPT compared to other pension plans.

**Investment strategy** In 1997, OPT utilized a variety of investment strategies — including both active and passive approaches — to support growth and control risk.

In an active mandate, investment managers aim to exceed a market index through prudent trading. Strategies include selecting companies which are soundly managed but potentially undervalued, which have strong growth potential, or which may benefit from market trends. For fixed income investments, active strategies include shifting to longer or shorter-term investments in anticipation of interest rate changes, and looking for attractive purchases or sales relative to typical yield curves and spreads.

By contrast, passive strategies represent an investment “core” through which managers match a designated index such as the Toronto Stock Exchange (TSE) 300. Such a strategy exploits the collective wisdom of the market at a lower investment cost than the active approach, and enhances market exposure, an important consideration for larger funds.

**Diversification: Asset Mix Policy** OPT's asset mix policy controls risk and enhances growth potential for the fund as a whole. The trustees have adopted the following long-term asset mix policy and allowable ranges to support long-term growth:

	Policy	Minimum	Maximum
	%	%	%
Canadian equities	30.0	25	35
Non-Canadian equities	30.0	25	35
<b>Equity (combined)</b>	<b>60.0</b>	50	70
Real estate	4.5	–	–
Real Return Bonds	2.5	–	–
<b>Inflation protection component</b>	<b>7.0</b>	0	10
<b>Fixed Income</b>	<b>33.0</b>	20	50
<b>Cash</b>	<b>nil</b>	nil	05
<b>Other Assets (Trustee-approved)</b>	<b>nil</b>	nil	10

*Total foreign assets shall not exceed the legal limit of 20% by book value.*

**Price risk management** Price risk is the risk of loss resulting from a change in the value of a financial instrument resulting from change in interest rates, foreign exchange rates or market prices. Price risks can be described as follows:

- Interest Rate Risk arises from interest rate fluctuations which may adversely affect the OPSEU Pension 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).
- Foreign exchange risk is the risk that the value of assets and liabilities will be affected by changes in foreign currency exchange rates. The Plan relies on external investment managers to manage the risk associated with assets denominated in foreign currency. The managers utilize a small number of forward contracts to limit the effect on investment returns. The Plan has limited exposure to foreign exchange risk with respect to liabilities as the majority of expenses incurred are in Canadian dollars.
- Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices, whether specific to the individual security or its issuer, or to factors affecting all securities in the market.

Changes in short term nominal interest rates and variability in the equity markets will affect the value of the OPSEU Pension Plan's assets in any given year. The pension liabilities of the Plan are exposed to the long term expectation of rates of return on investments as well as expectations of inflation and salary increases.

As outlined above, the OPSEU Pension Plan has established an asset mix policy of approximately 60% equities, 33% fixed income securities and a 7% inflation protection component. 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.

**Liquidity Risk** is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at its fair value.

Liquidity management at the OPT is designed to ensure the ability to generate or obtain sufficient cash or its equivalents in a timely manner at a reasonable price to meet its commitments as required. The OPT manages its liquidity conservatively at all times by carefully measuring and forecasting cash commitments and potential cash flow.

**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 OPSEU Pension Plan is with the Province of Ontario. As at December 31, 1997, the Plan was holding \$2.554 billion in Special Ontario Government debentures and the Province is also responsible for the funding of the transferred initial unfunded liability of the Plan as at December 31, 1992.

Investment restrictions within the Plan have been set to limit the credit exposure to other security issuers of bonds and debentures with a minimum rating of "A" or better and short term investments rated as "R-1" or better. The Province of Ontario exceeds these credit requirements.

**Operational risk** may relate to people, processes or technology. Operational risk is inherent in all activities undertaken by the OPT and requires policies and procedures to avoid potential losses.

One of the significant areas of operational risk for many organizations is the potential system problems caused by the year 2000 date change. The current operating systems at the OPT are either year 2000 compatible or plans are in place to ensure conversion over the next two years. Major external concerns include financial institutions, custodians and external investment managers who either control or manage the Plan's investments. However, these organizations all have plans for dealing with year 2000 issues before the turn of the century.

Operational risk is also managed through the use of internal controls, segregation of duties, accurate recording and reporting of transactions, adequate insurance, and training and development programs. In the event of a disruption of service, contingency plans are in place to permit the OPT to continue to serve members and pensioners.



*Telling it like it is: "How does OPT invest my pension money? How will my job transfer affect my pension? What formula is used to calculate my pension benefit?" OPT staff travelled to worksites and other special events to answer these and many other questions. Investment Co-ordinator Roger Phillips (centre) attended the 1997 OPSEU Annual Convention, where delegates appreciated frank and open disclosure on investment matters, and were pleased about OPT's strong investment performance. Benefits Specialists Carlo Agostini and Lauren Allen visited workplaces and OPSEU events to answer questions and provide information on the plan. They found that OPT plan members are keenly interested in their pensions and in the security of the plan, and are anxious to get the right information to help plan their future.*

## *A customer-focused plan: Meeting service goals*

### Listening to members and pensioners

“With all the paperwork and choices to make regarding my pension, I really appreciated your quick assistance... Thank you so much for your hard work and your friendly and efficient service.”

At OPT, recording compliments like this one — as well as criticism — is a routine part of our commitment to service excellence for our members.

We listen, and adapt, to meet the needs of our membership.

OPT staff fielded almost 55,000 phone calls in 1997 and answered thousands more written requests from members who wanted pension estimates, inquired about service buybacks, were transferring their pensions, or wanted to update their beneficiary information.

Staff in three teams served OPT members working at government ministries, agencies, boards and commissions. A fourth team provided a specialized pension estimate and commuted value estimate service. And our Pensioner Services team paid pensions and kept retired plan members informed about their pension benefits.

We continue to work to find ways to meet our commitment to provide the finest service to our members and pensioners.

### Personal service

Members have told us they appreciate personal service, and we listened. Today, when our members call, a real person answers and directs their inquiry. Members who call after hours can leave a voice message and have their call returned the next day. To support a personal touch in our service, we've continued to stress customer service training for our staff. We have resisted the trend towards “telephone tree” service because our members and pensioners want personal service.

### Timeliness

Members wanted faster service when they transferred or terminated from the plan. With a concerted effort by our staff, including overtime initiatives, we moved mountains in 1997, shrinking a backlog of cases (some inherited when the plan was created) from almost 2,000 in July to about 700 by year's end.

### Reaching out to members

In 1997, several thousand pension plan members were facing possible transfers to universities, hospitals, municipalities and other employers. When employees or union representatives called with special requests for presentations to address pension issues related to job transfers or restructuring, OPT was there with accurate information, and an “open-door” policy for future requests. During the year, OPT staff responded to numerous requests for special presentations, travelling to provincial government and agency workplaces across Ontario.

### Technology supports service

New technology supported our commitment to excellent service. A document imaging system introduced in the fall of 1997 put important records at the fingertips of OPT staff. Paper records and forms sent to OPT are now recorded electronically, eliminating the search for paper or microfiche records, and offering a sharper image than microfiche.



**As a Host and Demonstrator at the Ontario Science Centre, “you never know who you’re going to meet,” says OPT plan member Haydee Flor. Today, it’s four-year-old Cydney (right), whose imagination took flight at the transportation exhibit. Ms. Flor conducts demonstrations on paper-making, stargazing, electricity generation and other topics for thousands of visitors each year. The hair-raising electricity demo “is the most popular request, ahead of ‘Where’s the washroom?’” she says. “I love to teach things and I also learn a tremendous amount from the different people I meet.” She joined the OPSEU Pension Plan last year, and her first pension-related decision was to exercise her option to buy back credit from previous contract work.**

**“Purchasing the credit allows me to be vested sooner.” (A vested member is entitled to pension benefits; a non-vested member is entitled to his or her own contributions plus interest). In the future, Ms. Flor hopes to practice and teach medicine again. She was a surgeon at a teaching hospital in Cavite, Philippines, before she travelled to North America seeking a better life for herself and her son. “I’m still trying to get into medical school in Canada. I would like to work in medicine again.”**



***Focus on personal service:** OPT’s Doug Kaye (centre) co-ordinates a telephone hotline that provides members with pension and commuted value estimates. The team generated more than 2,600 estimates in 1997. Helping members with service buybacks, early retirement eligibility dates, and deferred pension options are all in a day’s work for Sharon Stewart, an Information and Communications Assistant who works in one of three teams serving plan members. Greg Toner, an Information and Communications Assistant in OPT’s Pensioner Services team, finds that CPP integration is a key issue for OPT pensioners. In 1997, the OPT published a booklet, Your pension and the Canada Pension Plan, to explain this issue.*

## Changing the way we work

At OPT, we also looked at how we work, redesigning forms and work processes to improve communication, eliminate unnecessary steps and provide faster and friendlier service, wherever possible.

## Translation at the OPT

Some OPT members ran into red tape elsewhere while trying to obtain official translations of their foreign-language documents, including birth certificates and marriage licences. We surveyed languages spoken by our staff, and introduced an in-house review process in 20 languages ranging from Urdu to Spanish — cutting through the red tape and reducing costs for many members.

We've also been able to draw on this important language resource when we meet our members face to face — for example, in cases when the surviving spouse of a deceased plan member does not speak English or French.

## Communicating issues affecting our membership

Pensions shouldn't be a mystery, and communication is a cornerstone of OPT's service.

In 1997, plan members and pensioners wanted more detailed information on how their OPT pensions were integrated with CPP, as the federal government moved to overhaul the Canada Pension Plan. We published a booklet explaining this important issue, helping pensioners and members make important decisions.

We revamped our plan booklet to reflect the life cycle of a member and to convey more comprehensive information. The revised booklet is being distributed to all members in 1998.

Members requested more information on survivor benefits, insured benefits and the Factor 80 early retirement provision. We responded with feature articles in our newsletter *OPTions* and a regular question-and-answer section.

Pensioners wanted to be kept informed about health benefits, cost-of-living increases, tax deductions and other issues. We addressed these topics in our newsletter *The Pension Connection*. Along with the newsletter, we mailed Pensioner cards which many of our retired members now use to obtain discounts on everything from haircuts to movie tickets.

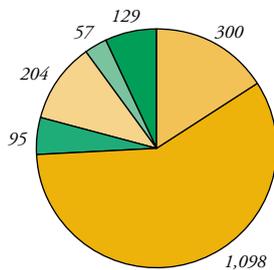
Finally, members indicated greater interest in accessing pension information electronically. In 1997, OPT set up an Internet project to respond to this need. Intended to go live in 1998, this will be the first step towards a new dimension of interactive communication with our members, complementing the personal service we offer.

## Responding to retirement trends

For our retiring members, a seamless path from paycheque to pension cheque is critical. They need to know that the pension benefit they've contributed to over the course of their working life will be there for them as a lifetime income in retirement. Ensuring their pension entitlement is calculated and delivered on schedule is a top priority.

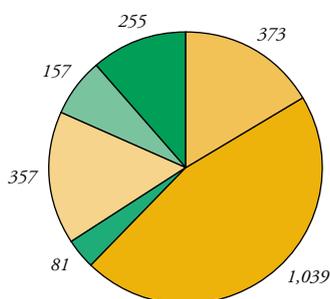
Roughly 1,100 OPT plan members retired under Factor 80 in 1997, representing more than half of total retirements for the year. In fact, "normal" retirement at age 65 has been the exception rather than the rule for OPT plan members as the public service undergoes significant restructuring.

In 1997, the median age for members who retired was 58, compared to 60 in 1993; the large number of members retiring early under Factor 80 contributed to the decrease.

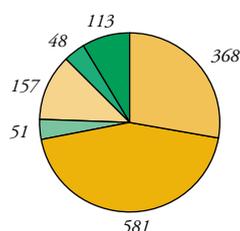


Retirement Trends  
1997 Total 1,883

Factor 80    Age 65    60/20  
Reduced    Factor 90    Deferred



1996 Total 2,262



1995 Total 1,318

- *Factor 80: Age and years of credit in the plan total exactly 80 years. Applies to members who meet the criteria on or before March 31, 2000.*
- *Factor 90: Age and years of credit total at least 90 years.*
- *60/20: Age 60 or more plus at least 20 years of credit.*
- *Deferred: Members can elect to defer their OPT pension to age 65, or they can receive it in a reduced form as early as age 55.*
- *Reduced: Pension is reduced by approximately 5% for each year below age 65; available to members age 55 and older who do not qualify for an unreduced early retirement provision but are entitled to a deferred pension.*
- *Note: does not include disability and survivor pensions.*



*Plan on an OPT pension:* A new tractor was the first item on Eric Downey's retirement wish list. The price wasn't cheap — about \$45,000 — but the machine will allow Mr. Downey to harvest more hay. Harvesting more hay will help him expand his small cow-calf operation near Peterborough. Mr. Downey retired in December after 29 years as a surveyor for the Ministry of Transportation. For the past few years, he has raised a few cattle as a sideline. "We have 100 acres and 17 cows. The calves are born in the spring and we sell them in November to a feed lot. At that point they usually weigh 600 to 700 pounds." A pound on the hoof was worth about \$1.04 in Mr. Downey's pocket last year, a better price than the previous year. In retirement, he's planning to expand his herd. "I grew up on a farm and I enjoy it, so expanding the

farming operation is a logical step for me." Mr. Downey retired under the Factor 80 provision (age plus credit in the plan total exactly 80 years; this is a time-limited provision available to members who meet the criteria on or before March 31, 2000). At age 51, with 29 years of service, he will receive a pension representing roughly 58 per cent of salary (integrated with CPP) for life, indexed to inflation.

## Leaving the OPT

Terminations and retirements totalled 7,158 in 1997, reflecting ongoing major restructuring in the Ontario Public Service and a more mobile workforce. Members who left the plan due to job loss or job transfer were 40 years old on average, with 8.4 years of credit in the plan. On average, they received a payment of \$37,291 representing the commuted value (present-day value of the future benefit) of the pension they had earned.



*OPT plan member Lloyd Easton checks the mechanical systems and payloads of trucks travelling Ontario's highways. "It's an exciting time because the regulations are tougher, and we're now conducting inspections around the clock," says Easton, a transportation enforcement officer with the Ministry of Transportation. "We're aiming to prevent injury and death resulting from commercial motor vehicle accidents." Easton previously worked on a seasonal basis with the Ministry of Natural Resources in Ontario's Algonquin Park. "As a seasonal worker, I had the option of joining the OPSEU Pension Plan — and it was an easy choice. By contributing to the plan right from the start, I earned credit that will help me reach early retirement sooner — so I can enjoy some of the other things I like to do." In his spare time, Easton builds oak furniture and enjoys wilderness camping, canoeing, hunting and fishing.*

## Serving those who serve Ontario

The Plan has more than 53,000 members across Ontario — from Windsor to Ottawa, from Cornwall to Kenora.

Our plan members are Ontario civil servants and other employees represented by the Ontario Public Service Employees Union (OPSEU), the Amalgamated Transit Union Local 1587, the Ontario Liquor Board Employees Union and the Canadian Union of Public Employees Local 3096.

They work at these ministries, agencies, boards and commissions:

Addiction and Mental Health  
 Services Corporation  
 Agriculture, Food and Rural Affairs  
 Attorney General  
 Cabinet Office  
 Chief Election Officer  
 Citizenship, Culture and Recreation  
 Community and Social Services  
 Consumer and Commercial Relations  
 Economic Development,  
 Trade and Tourism  
 Education and Training  
 Environment  
 Energy, Science and Technology  
 Finance  
 Francophone Affairs  
 GO Transit  
 Health  
 Intergovernmental Affairs  
 Labour  
 Legislative Assembly  
 Liquor Control Board of Ontario  
 Liquor Licence Board of Ontario  
 Management Board Secretariat  
 Municipal Affairs and Housing

Native Affairs  
 Natural Resources  
 Niagara Escarpment Commission  
 Niagara Parks Commission  
 Northern Development and Mines  
 Ontario Development Corporation  
 Ontario Financing Authority  
 Ontario Housing Authority  
 Ontario Pension Board  
 Ontario Place Corporation  
 Ontario Realty Corporation  
 Ontario Science Centre  
 Ontario Teachers' Pension Plan Board  
 OPSEU Pension Trust  
 Solicitor General and Correctional  
 Services  
 Transportation  
 Workplace Safety and Insurance  
 Appeals Tribunal

In addition, more than 9,000 OPT pensioners live across Ontario, throughout Canada and around the world in many countries, including the U.S., Trinidad, the U.K., Holland, Germany, Pakistan, Turkey, China, Australia and New Zealand.

## MEMBERSHIP STATISTICS

	1997	1996
<b>Active members</b>		
Total at December 31	<b>53,067</b>	59,115
Female/male ratio	<b>54:46</b>	54:46
Average age	<b>43.7</b>	42.6
Average salary	<b>\$40,232</b>	\$40,600
Average years of credit in the Plan	<b>12.3</b>	11.6
Number of members enrolled	<b>1,110</b>	1,024
Number of members terminated or retiring	<b>7,158</b>	6,209
Net increase (decrease) in active membership	<b>(6,048)</b>	(5,185)
<b>Pensioners</b>		
Total at December 31	<b>9,001</b>	7,012
Average age	<b>60.0</b>	60.0
Average annual pension	<b>\$17,390</b>	\$16,942
<b>Number of pensioners by type of pension</b>		
Normal and early unreduced	<b>7,839</b>	6,190
Reduced	<b>734</b>	518
Eligible survivors	<b>423</b>	301
Disability	<b>5</b>	3
<b>Total Members and Pensioners</b>	<b>62,068</b>	66,127

## Contributions and benefits

*While they work, plan members contribute 8% of their salary (adjusted to 6.2% on the portion of earnings for which they contribute to Canada Pension Plan) towards their pension, an amount matched by the employer.*

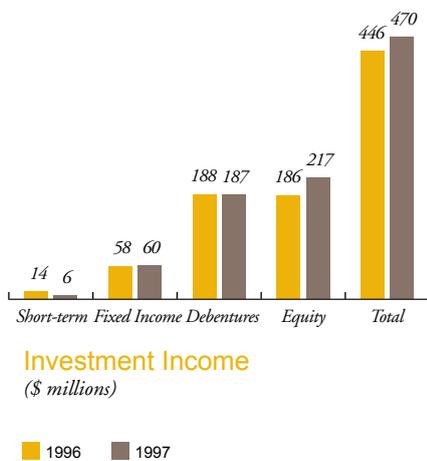
*The pension benefit they earn is a lifetime retirement income, based on this formula: 2% of average **salary** (typically the average of a member's highest consecutive five years of annual salary rate), times **credit** (years and months of credit in the plan), less **CPP integration** (an adjustment based on CPP contributions and benefits). Important plan features include:*

- *Inflation protection*
- *Survivor benefits*
- *Early retirement options*
- *Portability options*
- *Service buyback options*

*Related features for those qualifying include:*

- *Disability benefits*
- *Health/dental benefits*

## Towards a fully-funded plan: Meeting goals of improved security



The relationship between assets and liabilities reflects the financial health of a pension plan. The OPSEU Pension Plan is well-funded to meet the goals of its members, pensioners and sponsors.

Here we discuss two snapshots of the financial health of the plan: OPT's 1997 financial statements and its longer-term funding valuation.

### 1997 financial statements

#### Increases in assets

Net assets available for benefits exceeded \$7.7 billion at December 31, 1997, a \$966-million increase over the previous year. Strong investment returns accounted for the bulk of the increase. Net investment income was \$463 million, up from \$441 million the previous year. The unrealized increase in market value of investments was \$518 million, compared with \$587 million the previous year.

The asset mix (on a market value basis) as at year-end 1997 comprised the following: fixed-income investments totalling \$3.4 billion (including \$2.6 billion in Special Ontario Government Debentures), an increase from \$3.1 billion in 1996; Canadian equities totalling \$2.3 billion, up from \$2.0 billion in 1996; foreign equities totalling \$1.7 billion, an increase from \$1.3 billion the previous year; and an inflation-protection component (comprised of real return bonds and real estate) of \$356 million, up from \$290 million in 1996.

A Schedule of Significant Investments (valued at \$5 million or more) appears in the financial statements of this report.

Investment expenses totalled \$7.2 million in 1997, compared to \$5.7 million in 1996. The increase is largely related to the increase in portfolio size. These expenses are deducted from any investment increase, before net investment income is recorded.

**Magnet mailout: Plan Manager Colleen Parrish (centre), Pension & Payments Clerk Jocelyn Tan-Lee (left) and Information and Communications Assistant Sharon Rawlins. An item as simple as a fridge magnet, listing pension pay dates and OPT's toll-free number, proved to be a real convenience for our retired members, and has become an annual tradition. When it comes to keeping track of our retired members, the geography can get colourful. They're everywhere — from Bluevale to Orangeville; Honey Harbour to Cherry Valley; Eagle Lake to Wolfe Island; Little Current to Grand Bend; Red Rock to Whitefish; Sesekinika to Pikangikum; Wahnapiatae to Manitowaning. We even have pensioners in Ripley, believe it or not!**



Contributions from members and employers totalled \$294 million in 1997, a significant increase from \$169 million the previous year. The change reflects the return of members' contributions to 8% of salary in 1997, the return of full matching contributions by employers following a three-year contribution reduction, and the commencement of special payments from the Province of Ontario.

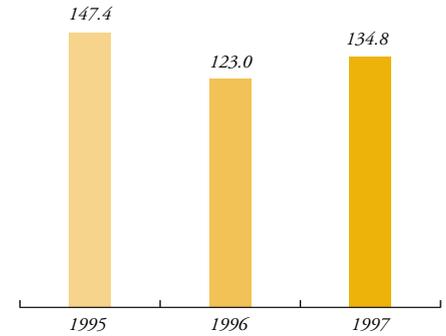
In 1997, OPT received \$64 million due from the province and the Ontario Pension Board, the final payment in a separation of membership and assets that had begun three years earlier. The payment was recorded for the 1996 fiscal year and was reflected in the 1996 Annual Report.

## Decreases in assets

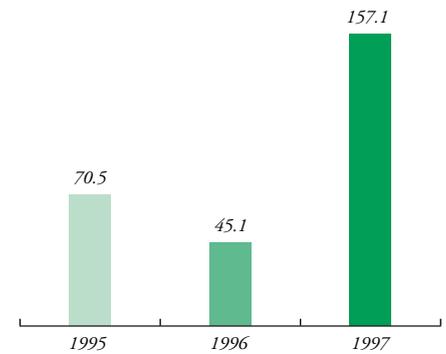
OPT made pension payments totalling \$141 million in 1997, an increase of 34 per cent over the previous year. OPT's pensioner population rose to 9,001 from 7,012 the previous year, reflecting the continuing boom in early retirements, in particular the large number of plan members who retired under the Factor 80 provision, due in large part to government restructuring.

Termination payments also increased almost four-fold to \$154 million in 1997 from \$38 million the previous year as members left the plan due to job transfer or job loss. These included members who transferred their pensions to other plans with whom the OPT has transfer agreements. The large increase in payments also reflects the OPT's success in tackling case backlogs in 1997 — processing cases from previous years as well as most 1997 cases.

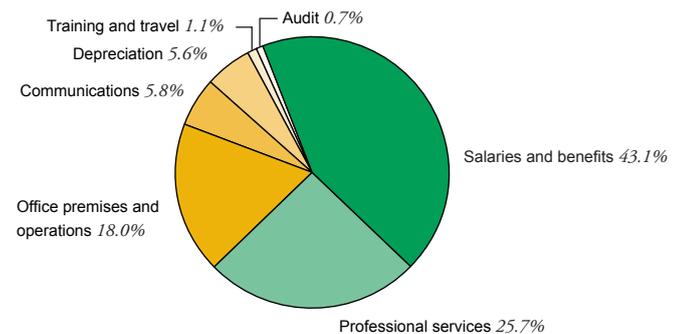
OPT held its increase in operating costs below inflation in 1997 — recording a marginal increase from \$14.8 to \$14.9 million — while improving service to process more cases and pension payments. Factors in operating expenses in 1997 included completion of the separation of assets and membership, valuing the pension plan, and costs related to enhancing service.



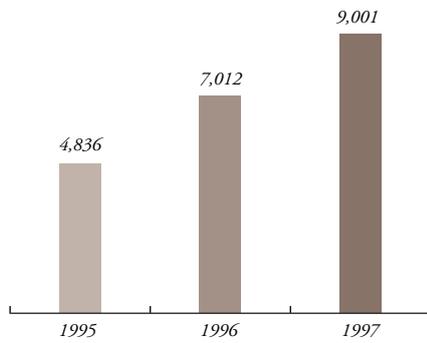
**Members' Contributions**  
As at December 31  
(\$ Millions)



**Employers' Contributions**  
As at December 31  
(\$ Millions)



**Operating Expenses**  
for the year ended December 31, 1997



**OPT Pensioner population**  
As at December 31

## Net Assets available for benefits

Net Assets available for benefits for members and pensioners rose to \$7,741 million in 1997 from \$6,775 million the previous year.

## Actuarial value of net assets

The actuarial value of net assets available for benefits was \$6,965 million. This figure reflects an actuarial adjustment of \$776 million. When actuaries look at assets available, they average the increase over a four-year period. This technique, called “smoothing,” is designed to avoid volatility inherent in looking at just one year’s investment return. In determining actuarial value, OPT’s returns in 1994, 1995 and 1996 are considered, as well as some (about 25%) of 1997 returns.

## Accrued pension benefits

The value of benefits owed to OPT members and pensioners — as assessed by OPT’s actuaries — stood at \$6,648 million on December 31, 1997.

## Surplus (deficiency)

Accrued pension benefits are subtracted from the actuarial value of net assets to arrive at a surplus or deficiency for 1997 financial statement purposes. OPT recorded a surplus of \$316 million in 1997, moving from a small deficiency in 1996.

	<b>Financial Statement Assumptions</b>	Financial Statement Assumptions	Funding Valuation Assumptions
	<b>1997</b>	1996	1995 & 1996
Investment return	<b>7.50%</b>	7.50%	7.50%
Inflation rate	<b>3.50%</b>	3.75%	3.75%
Salary escalation*	<b>4.50%</b>	4.75%	4.75%

\* percentage shown plus service-related promotion scale

## Liabilities of the OPSEU Pension Plan

The difference between the surplus recorded in the financial statements and the unfunded liability established by the funding valuation results from different economic assumptions, forecast methods and timing of the 1997 financial “snapshot” compared with a long-term funding valuation.

The plan’s liabilities — the value of future pension benefits to be paid to its members — are assessed from two different angles.

For the **financial statements**, assets and liabilities are calculated based on the **service to date** of all current members. This method is more of a snapshot than a long-term forecast; it assumes that each year’s accrual of pension benefits is funded in the year in which it is earned.

An actuarial **funding valuation** is a **long-term forecast**, to gauge the fund’s ability to meet its future liabilities; calculations are based on past and projected future service of all current members.

To determine the value of a pension, actuaries use life expectancy tables and consider expected ages of retirement or termination of plan membership. They must estimate future inflation, return on investments, and salary increases. The valuation must also consider the age and gender of members’ spouses to estimate future survivor benefits.

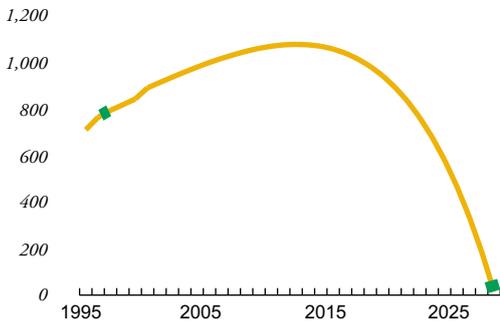
Funding valuations are appropriately cautious, to avoid unpleasant surprises in the form of large contribution increases, for example. This allows the OPT to be prepared for unexpected events, such as large increases in early retirement caused by restructuring in the public service.

The 1997 financial statement “snapshot” does provide useful and positive information. For example, it appears likely based on our 1997 financial statements that our next funding valuation at December 31, 1998 will show gains in the plan. Under the terms of the OPSEU-Government of Ontario sponsorship agreement, those gains would be shared equally between the Government of Ontario and OPT’s membership. Representing our pension plan members, OPSEU can choose to use gains to stabilize or reduce contributions, or to enhance benefits. The Government of Ontario must use its share to pay down the pension plan’s unfunded liability (thereafter, it can stabilize or reduce contributions). That is why it’s likely the goal of a fully-funded plan will be reached more quickly than the 30 years originally anticipated. However, the OPSEU Pension Plan is not fully funded.

### Payments initiated to reduce unfunded liability

In April 1997, the Government of Ontario began a series of special payments to pay down the unfunded liability, which was inherited when the plan was created. Under a contractual agreement, payments which include interest on the outstanding liability, were to continue until 2029 to eliminate the liability. However, the liability is likely to be paid off earlier, since the province must commit its share of any actuarial gains towards paying it down.

Indeed, in 1997, the employer share of gains in the plan reduced the unfunded liability by \$18 million, eliminating all payments owed in the year 2029. This was in addition to the \$24 million paid in 1997.

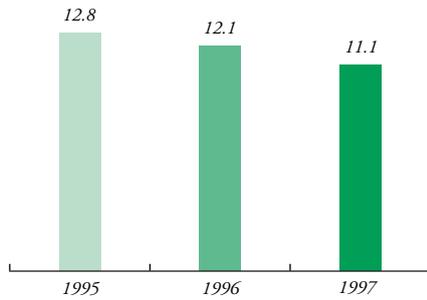


#### Unfunded Liability Payment Progress

At December 31, 1995

(\$ Millions)

*Note: Payments due for year 2029 eliminated due to actuarial gains. Payments due in 1997 were made.*



Unfunded liability as a percentage of Assets

### Funded position improves

The funding status of the plan has steadily improved since its inception.

OPT's unfunded liability is established by the funding valuation. At December 31, 1995, its last triennial valuation, the unfunded liability was \$710 million. In 1997, an additional interim valuation of the OPSEU Pension Plan as of December 31, 1996 was conducted. That valuation, which does not affect contributions to the pension plan, did provide useful information about the plan; at the end of 1996, the plan's unfunded liability was \$745 million. However, its assets had also risen in 1996, so that the overall funded position of the plan has improved. The OPT's next triennial funding valuation will be at December 31, 1998 and will be public in mid-1999.

#### Unfunded liability as a percentage of assets (\$ Thousands)

	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1997
Unfunded liability	\$ 710,032	\$ 744,954	\$ 775,845*
Actuarial value of net assets available for benefits	\$ 5,546,763	\$ 6,178,636	\$ 6,965,001
Unfunded liability as a percentage of Assets	12.8%	12.1%	11.1%

\* 1997 estimate based on 1996 funding valuation



*Price Waterhouse*

## Auditors' Report

To the Board of Trustees of the OPSEU Pension Trust

We have audited the statement of net assets available for benefits and accrued pension benefits and surplus (deficiency) of the Ontario Public Service Employees Union Pension Plan (the Plan) as at December 31, 1997 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus (deficiency) for the year 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 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 management 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 (deficiency) of the Plan as at December 31, 1997 and the changes in its net assets available for benefits, accrued pension benefits and surplus (deficiency) for the year then ended in accordance with generally accepted accounting principles.

*Price Waterhouse*

Chartered Accountants  
Toronto, Canada

March 4, 1998

## Actuaries' Certificate

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, 1996 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 accounting purposes as at December 31, 1997 in accordance with the Canadian Institute of Chartered Accountants Handbook Section 4100. The valuation was based on an extrapolation of the December 31, 1996 accrued pension benefits determined using the membership data from the December 31, 1996 funding valuation, the projected unit credit cost method prorated on services and managements' best estimate assumptions for 1997 financial statement purposes as set out in Note 6(c). There have been changes to the actuarial assumptions from those used in the previous valuation for accounting purposes as disclosed in Note 6(c). In our opinion, the assumptions are, in aggregate, appropriate for the purposes of the valuation.

In our opinion, the December 31, 1997 actuarial valuation for accounting 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

March 4, 1998

## Management Responsibility for Financial Reporting

The management of the OPSEU Pension Trust (OPT) 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 generally accepted accounting principles and comply with the financial reporting requirements of the Pension Benefits Act. The financial statements include amounts which 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 have recognized the importance of the OPT 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. 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 the OPT.

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.

Price Waterhouse, the external auditors, have conducted an independent examination of the financial statements in accordance with 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  
Plan Manager

Sherry MacDonald, CA  
Treasurer and Director of Financial and  
Administrative Services

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND SURPLUS (DEFICIENCY)

As at December 31, 1997

(\$ Thousands)	1997	1996
<b>Assets</b>		
Investments (Note 4)	<b>\$7,683,075</b>	\$6,656,198
Due from Ontario Pension Board and the Province (Note 5)	–	64,260
Contributions receivable		
Members	<b>11,575</b>	11,125
Employers	<b>23,107</b>	20,106
Accrued income	<b>24,289</b>	24,411
Fixed assets	<b>3,261</b>	3,371
	<b>7,745,307</b>	6,779,471
<b>Liabilities</b>		
Accounts payable and accrued charges	<b>2,632</b>	3,240
Income tax withheld on pension benefit payments	<b>2,133</b>	1,712
	<b>4,765</b>	4,952
<b>Net assets available for benefits</b>	<b>7,740,542</b>	6,774,519
Actuarial asset value adjustment (Note 6)	<b>(775,541)</b>	(595,883)
<b>Actuarial value of net assets available for benefits</b>	<b>\$6,965,001</b>	\$6,178,636
<b>Accrued pension benefits and surplus (deficiency)</b>		
Accrued pension benefits	<b>6,648,487</b>	6,179,957
Surplus (deficiency)	<b>316,514</b>	(1,321)
<b>Accrued pension benefits and surplus (deficiency)</b>	<b>\$6,965,001</b>	\$6,178,636

On behalf of the Board of Trustees



Jennifer Brown  
Chair



Grant MacGillivray  
Vice-Chair

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended December 31, 1997

(\$ Thousands)	<b>1997</b>	1996
<b>Increase in assets</b>		
Net investment income (Note 7)	<b>\$ 463,037</b>	\$ 440,669
Unrealized increase in market value of investments	<b>518,124</b>	586,577
Contributions (Note 8)	<b>294,031</b>	169,323
Transfer of assets to the OPSEU Pension Plan Fund (Note 5)	–	53,062
	<b><u>1,275,192</u></b>	<u>1,249,631</u>
<b>Decrease in net assets</b>		
Pensions paid	<b>140,598</b>	105,153
Termination payments and transfers to other plans	<b>153,663</b>	38,304
Operating expenses (Note 9)	<b>14,908</b>	14,823
	<b><u>309,169</u></b>	<u>158,280</u>
<b>Total increase for the period</b>	<b>966,023</b>	1,091,351
<b>Net assets at beginning of period</b>	<b><u>6,774,519</u></b>	5,683,168
<b>Net assets at end of period</b>	<b><u>\$7,740,542</u></b>	<u>\$6,774,519</u>

## STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

For the year ended December 31, 1997

(\$ Thousands)	1997	1996
<b>Accrued pension benefits, beginning of year</b>	<b>\$6,179,957</b>	\$6,305,566
<b>Increase in accrued pension benefits</b>		
Interest on accrued pension benefits	452,661	467,635
Benefits earned	330,314	345,050
Experience losses	188,232	—
	<u>971,207</u>	<u>812,685</u>
<b>Decrease in accrued pension benefits</b>		
Changes in actuarial assumptions and methods	208,416	134,341
Benefits paid	294,261	143,457
Experience gains	—	660,496
	<u>502,677</u>	<u>938,294</u>
<b>Net increase (decrease) in accrued pension benefits</b>	<b>468,530</b>	(125,609)
<b>Accrued pension benefits, end of year</b>	<b>\$6,648,487</b>	\$6,179,957

## STATEMENT OF CHANGES IN SURPLUS (DEFICIENCY)

For the year ended December 31, 1997

(\$ Thousands)	1997	1996
<b>Deficiency, beginning of year</b>	<b>\$ (1,321)</b>	\$ (758,803)
Increase in net assets available for benefits	966,023	1,091,351
Change in actuarial asset value adjustment	(179,658)	(459,478)
Increase in actuarial value of net assets available for benefits	786,365	631,873
Net (increase) decrease in accrued pension benefits	(468,530)	125,609
<b>Surplus (deficiency), end of year</b>	<b>\$316,514</b>	\$ (1,321)

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended December 31, 1997*

### 1. ONTARIO PUBLIC SERVICE EMPLOYEES UNION PENSION ACT, 1994

Based on the terms of a Sponsorship Agreement between the Province of Ontario and the Ontario Public Service Employees Union (OPSEU), a new pension plan, the OPSEU Pension Plan (the Plan), was established effective January 1, 1993 for employees of the Province in bargaining units represented by OPSEU and other designated bargaining units. The Agreement established the Province and OPSEU as joint sponsors of the new Plan and provided for the transfer of assets and obligations for benefits for members of the OPSEU Pension Plan from the Public Service Pension Fund (PSP Fund) to the OPSEU Pension Plan Fund (the Fund).

Both the OPSEU Pension Plan and the OPSEU Pension Plan Fund are administered and managed by a Board of Trustees, as described in the Trust Agreement between the Sponsors. The Board of Trustees is comprised of five persons appointed by each of the Province and OPSEU. The OPSEU Pension Trust (OPT), under the direction of the Board of Trustees, is the organization that administers the Plan and the Fund.

### 2. DESCRIPTION OF THE OPSEU PENSION PLAN

The following is a brief description of the OPSEU Pension Plan. Further information can be found by reference to the Sponsorship Agreement, the OPSEU Pension Plan document and the Trust Agreement.

#### *a) General*

The OPSEU Pension Plan is a contributory defined benefit pension plan. The Plan is jointly sponsored by the Province of Ontario and OPSEU. Membership within the Plan consists largely of civil servants or Crown employees in bargaining units represented by OPSEU, persons employed by the Toronto Area Transit Operating Authority and in a bargaining unit represented by the Amalgamated Transit Union (ATU, Local 1587), persons employed by the Liquor Control Board of Ontario or the Liquor License Board of Ontario and in a bargaining unit represented by the Ontario Liquor Control Board Employees Union (OLBEU) and persons employed by housing authorities created pursuant to the Housing Development Act and in a bargaining unit represented by CUPE Local 3096.

The OPSEU Pension Plan is registered under the Pension Benefits Act of Ontario, registration number C-104998 and the Income Tax Act (Canada), registration number 1012046.

#### *b) Funding*

Plan benefits are funded by contributions and investment earnings. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations (see Note 6).

#### *c) Contributions*

The OPSEU Pension Plan is integrated with the Canada Pension Plan (CPP). Members contribute 8% of salary up to the Year's Basic Exemption (YBE) as prescribed by CPP, 6.2% of salary between the YBE and the Year's Maximum Pensionable Earnings (YMPE) under CPP, and 8% on the balance of the salary over the YMPE. The employers contribute matching amounts. Pursuant to the Sponsorship Agreement and the OPSEU Pension Act, 1994, employee and employer contributions, special payments and other payments required to be made to the Fund were reduced up to the period ended March 31, 1997.

#### *d) Pensions*

The factors to determine whether a pension is available are: the number of months of continuous membership in the Plan; the number of months of credit in the Plan; average salary (usually 5 years); and the age of the member at retirement. An unreduced pension can be received before age 65 if the member's age and credit total 90 (the 90 Factor) or when the member reaches age 60 and has 20 or more years of credit. There is also a time limited provision that provides for an enhanced retirement opportunity for those members of the Plan whose age and credit total 80 (the 80 Factor) prior to April 1, 2000 and for certain members that are laid off, a Factor 80

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 1997

“re-opener” benefit and a benefit permitting bridging to early retirement. Actuarially reduced pensions are available at age 55. The Plan provides a 50% survivor pension with no actuarial reduction. (A member can also elect to have their pension actuarially reduced in order to provide a higher survivor pension for their spouse.)

### *e) Death Benefits*

Upon the death of a member or pensioner, death benefits are available to a surviving eligible spouse, eligible children, designated beneficiary or estate. The death benefit may be in the form of a survivor pension, a lump sum payment or both.

### *f) Disability Pensions*

A disability pension may be 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.

### *g) Termination Payments*

Subject to certain lock-in provisions, a member who terminates employment may be entitled to transfer the commuted value or refund of contributions to a registered retirement savings plan, to another eligible pension plan or purchase a life annuity. Some contributions and excess contributions may also be paid in cash, subject to withholding of income taxes.

### *h) Escalation of Benefits*

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%.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *a) Basis of Presentation*

The financial statements are prepared in accordance with generally accepted accounting principles and present the OPSEU Pension Plan as a separate entity independent of the participating employers and plan members.

### *b) Investments*

#### Valuation of Investments

Securities listed on a public stock exchange are recorded as of the trade date and are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the average of the closing recorded bid and ask prices. Short term investments are carried at amortized cost. Special Ontario Government debentures, which are non-marketable, are recorded at estimated market values based on the market yields of comparable securities. Real estate is valued at market and is appraised on an annual basis.

#### Income Recognition

i) Interest income is recorded on the accrual basis. ii) Dividend income is recorded on the ex-dividend date. iii) Realized gains and losses are credited or charged to investment income based on average cost or carrying value. iv) Unrealized gains and losses attributable to changes in the difference between the market value and the cost of investments at the beginning and end of each period are separately presented in the Statement of Changes in Net Assets Available for Benefits.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 1997

### *c) Accrued Pension Benefits*

The value of accrued pension benefits is determined based on an actuarial valuation prepared by an independent actuarial firm. The valuation for financial reporting purposes is made as at the date of the last completed funding valuation using the projected benefit method pro-rated on service and management's best estimate assumptions of certain future economic events. This valuation is extrapolated to the date reported in the financial statements.

### *d) Contributions*

Contributions from members and employers which are due to the OPSEU Pension Plan at year end are recorded as a receivable. Contributions and matching contributions relating to purchases of credit for prior employment and transfers are recorded when cash is received. Special payments from the Province are recorded in the period in which they are received.

### *e) Pensions*

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

### *f) Fixed Assets*

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the fixed assets as follows :

Furniture and Fixtures	– 10 years
Computer Equipment	– 5 years
Systems Development	– 3 years
Leasehold Improvements	– Remaining life of lease

### *g) 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. INVESTMENTS

The long term objectives of the Plan are to provide security of benefits to members, to minimize the risk of increases in the unfunded liability of the Plan, and to minimize increases in the contributions required by members and employers. To achieve these objectives, a target of a long term rate of return in the funding valuation has been established at 7.5%, which combines assumptions regarding return before inflation and an actuarially assumed rate of inflation. The current actuarial assumed rate of inflation is 3.75%.

The Fund's assets are comprised of marketable assets and non-marketable Special Ontario Government debentures. The debentures generate monthly cash flows of principal and interest payments. Currently, these non-marketable debentures yield a weighted average interest rate of 11.60% with the final debentures maturing in 2014.

Credit risk refers to the potential loss arising from a security issuer being unable to meet its financial obligations. At December 31, 1997 the greatest credit exposure was with the Province of Ontario. This exposure is due to the Plan holding \$2.6 billion of Ontario debentures and the responsibility of the Province to fund the initial transferred unfunded liability of the Plan at December 31, 1992.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 1997

(\$ Thousands)	1997		1996	
	Market Value	Cost	Market Value	Cost
Special Ontario Government debentures	<b>\$2,553,648</b>	<b>\$1,986,315</b>	\$2,449,007	\$2,026,763
<b>Canadian</b>				
Cash and short term investments	<b>199,741</b>	<b>199,741</b>	169,217	169,217
Bonds	<b>949,285</b>	<b>915,203</b>	677,016	641,529
Equities	<b>2,310,140</b>	<b>1,717,003</b>	2,020,513	1,563,726
	<b>3,459,166</b>	<b>2,831,947</b>	2,866,746	2,374,472
<b>Foreign</b>				
Cash and short term investments	<b>139</b>	<b>139</b>	871	871
Bonds	<b>2,671</b>	<b>3,946</b>	8,932	8,740
Equities	<b>1,652,122</b>	<b>1,128,208</b>	1,329,642	1,044,812
	<b>1,654,932</b>	<b>1,132,293</b>	1,339,445	1,054,423
<b>Real Estate</b>	<b>15,329</b>	<b>15,300</b>	1,000	1,000
<b>Total Investments</b>	<b>\$7,683,075</b>	<b>\$5,965,855</b>	\$6,656,198	\$5,456,658

### 5. TRANSFER OF ASSETS TO THE OPSEU PENSION PLAN

The Sponsorship Agreement and the OPSEU Pension Act, 1994 provided for the transfer of benefits for members of the new OPSEU Pension Plan Fund from the Public Service Pension Fund together with assets pertaining to these obligations. The calculation of the obligations and transferable assets was included in the December 1994 Sponsorship Amendment and Asset Transfer Agreement between the sponsors of the OPSEU Pension Plan, the Ontario Pension Board (OPB) and the Trustees of the OPSEU Pension Plan Trust Fund (OPT). The agreement provided for the transfer of assets in three phases. The first phase of this transfer occurred in January 1995 and installments for the second asset transfer were made in 1996.

In June 1997, the parties agreed to a Restated Sponsorship Amendment and Asset Transfer Agreement which completed the final phase of the asset transfer, the purification adjustment. This final adjustment comprised two parts. The first part, based on the correct plan affiliation of members, included the transfer of assets from the Ontario Pension Board to the OPSEU Pension Plan as well as the revised split of Special Ontario Government debentures between the OPB and the OPT by the Province of Ontario. As the timing of the purification adjustment was originally scheduled to occur in April 1996, the asset transfer receivable was recorded at December 31, 1996. In 1997, these assets were transferred to the OPT.

The second part of the purification adjustment will take place after the correction of member data has been completed by the Province of Ontario and will be settled between the Province and the OPT on or before December 31, 2001.

### 6. ACCRUED PENSION BENEFITS

#### a) Funding

##### Valuation

Funding valuations are required to be performed every three years in accordance with the Pension Benefits Act of Ontario. The latest triennial funding valuation of the OPSEU Pension Plan as at December 31, 1995 was prepared by Buck Consultants. That valuation disclosed an unfunded liability of \$710 million which was comprised of the balance of the transferred initial unfunded liability of \$782 million and a net actuarial gain of \$72 million. The Province is responsible for the initial unfunded liability and is required to pay it off by a series of special payments beginning April 1, 1997 through December 1, 2029.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 1997

Under the terms of the Sponsorship Agreement a funding valuation was required to be performed at December 31, 1996. The net actuarial gains in 1996 of \$36 million were equally shared between the employer and members. The employer share of \$18 million was accumulated with interest to reduce the balance of the transferred initial unfunded liability to \$745 million at December 31, 1996. This amount is to be liquidated by the same special payments established at the December 31, 1995 valuation but the period of amortization is reduced to reflect the employer's share of the 1996 net actuarial gains. As a result of this provision, the final amortization payment date was changed from December 1, 2029 to December 1, 2028.

The members' share of \$18 million can be used for the establishment of a stabilization fund, contribution reductions or benefit improvements, at the option of the OPSEU sponsor.

### *Actuarial Assumptions*

Generally, the actuarial assumptions used to determine the pension liabilities for funding purposes are conservative. The aggregate funding method considers a time horizon which includes accumulation of benefits and receipt of contributions in future periods. The assumptions used for the funding valuation as at December 31, 1996 are unchanged from the December 31, 1995 triennial valuation and are as follows:

Investment return	7.50%
Inflation rate	3.75%
Salary escalation*	4.75%

\* percentage shown plus service-related promotion scale

### *b) Financial Reporting*

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 services. 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.

The actuarial value of marketable assets at December 31, 1997 has been determined using a formula that smooths out the effects of the changes in market factors and recognizes the gains and losses over four years. Special Ontario Government debentures have been valued at market as at December 31, 1997 to determine their actuarial value. In future, once sufficient market value information is available for these debentures, they will also be smoothed over four years. The actuarial asset value adjustment reflects the differences between the market value of these assets as reported in Note 4 and the actuarial value of assets.

By valuing assets on an actuarial basis and comparing them to the actuarial value of accrued pension benefits calculated in accordance with the CICA requirements, the result is a surplus of \$316 million as at December 31, 1997.

### *c) Management's Best Estimate Assumptions*

The economic assumptions used in determining the actuarial value of accrued pension benefits reflect management's best estimate of expected long-term economic trends for financial statement purposes. These are compared to economic assumptions used in the 1995 and 1996 actuarial funding valuations:

	<b>Financial Statement Assumptions 1997</b>	Financial Statement Assumptions 1996	Funding Valuation Assumptions 1995 & 1996
Investment return	<b>7.50%</b>	7.50%	7.50%
Inflation rate	<b>3.50%</b>	3.75%	3.75%
Salary escalation*	<b>4.50%</b>	4.75%	4.75%

\* percentage shown plus service-related promotion scale

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 1997

The Trustees of the OPSEU Pension Plan reviewed the assumptions used for the December 31, 1996 funding valuation and the best estimate economic assumptions used for the December 31, 1996 and December 31, 1997 financial statements. This review included an examination of assumptions for inflation, real and nominal investment return, average industrial wage growth and salary growth by referring to historic surveys as well as medium and long-term forecast information. Consideration was also given to the improved data regarding plan membership which supported the results of unqualified 1995 and 1996 actuarial funding valuations.

Based on this information, adjustments were made to the best estimate economic assumptions for the December 31, 1997 financial statements to remove some of the conservatism or cushion necessarily found in funding valuations where it is important to protect the plan against the risk of unexpected events. The assumed inflation rate was decreased from 3.75% to 3.5% and the real return on assets increased by 0.25% to 4%, resulting in a nominal investment return of 7.5%. Salary escalation was reduced by 0.25% to correspond to the inflation assumption reduction.

### *d) Experience Gains and Losses*

1997 experience losses of \$188 million (1996 – gains of \$660 million) are due to the difference between the actuarial assumptions and actual demographic experience.

## 7. NET INVESTMENT INCOME

(\$ Thousands)	1997	1996
<b>Interest Income</b>		
Special Ontario Government debentures	<b>\$208,054</b>	\$209,819
Cash and short term investments		
Canadian	<b>8,002</b>	14,913
Foreign	<b>65</b>	15
Bonds		
Canadian	<b>47,469</b>	36,366
Foreign	<b>115</b>	347
<b>Total Interest Income</b>	<b>263,705</b>	261,460
<b>Dividend Income</b>		
Canadian	<b>44,316</b>	42,201
Foreign	<b>12,238</b>	12,005
<b>Total Dividend Income</b>	<b>56,554</b>	54,206
<b>Realized Gain on Investments</b>	<b>150,014</b>	130,743
<b>Total Investment Income</b>	<b>470,273</b>	446,409
Investment expenses	<b>7,236</b>	5,740
<b>Net Investment Income</b>	<b>\$463,037</b>	\$440,669

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 1997

### 8. CONTRIBUTIONS

(\$ Thousands)	1997	1996
<b>Members</b>		
Current service	<b>\$129,739</b>	\$117,140
Prior service	<b>5,095</b>	5,903
	<b>134,834</b>	123,043
<b>Employers</b>		
Current service	<b>115,450</b>	35,882
Prior service	<b>4,254</b>	3,358
Long Term Income Protection (LTIP)*	<b>13,129</b>	5,868
Unfunded liability payments	<b>24,241</b>	–
	<b>157,074</b>	45,108
<b>Transfers from Other Plans</b>	<b>2,123</b>	1,172
<b>Total Member and Employer Contributions</b>	<b>\$294,031</b>	\$169,323

The Sponsorship Agreement and the OPSEU Pension Plan Act, 1994 provided for a reduction in employer matching contributions and special payments to reduce unfunded liabilities for the three year period commencing April 1, 1994 and ending March 31, 1997. The total reduction for the three year period was \$335.4 million. In 1997, a final reconciliation of outstanding contributions was completed and amounts were settled between the Plan and the Employer.

*\*Members' portion of contributions made by the Province on behalf of members disabled and in receipt of the Province's long term income protection benefits.*

### 9. OPERATING EXPENSES

(\$ Thousands)	1997	1996
Salaries and benefits	<b>\$ 6,419</b>	\$ 6,084
Professional services	<b>3,831</b>	4,053
Office premises and operations	<b>2,690</b>	3,194
Communications	<b>863</b>	698
Depreciation	<b>840</b>	606
Training and travel	<b>160</b>	113
Audit	<b>105</b>	75
<b>Total Operating Expenses</b>	<b>\$14,908</b>	\$14,823

## SCHEDULE OF SPECIAL ONTARIO GOVERNMENT DEBENTURES

As at December 31, 1997

(\$ Thousands)

<b>Maturity Date</b>	<b>Coupon %</b>	<b>Market Value</b>	<b>Cost</b>
1998 – 2002	8.00 – 8.99	\$ 48,833	\$ 51,002
	9.00 – 9.99	72,458	62,292
	10.00 – 10.99	97,237	86,590
	11.00 – 11.99	21	19
	13.00 – 13.99	27	24
	14.00 – 14.99	9,424	11,814
	16.00 – 16.99	36	30
		<b>228,036</b>	<b>211,771</b>
2003 – 2007	9.00 – 9.99	170,842	142,120
	11.00 – 11.99	109,006	88,148
	12.00 – 12.99	58	48
	13.00 – 13.99	135,758	107,685
	14.00 – 14.99	48	40
	15.00 – 15.99	176,486	137,747
		<b>592,198</b>	<b>475,788</b>
2008 – 2012	10.00 – 10.99	252,050	187,828
	11.00 – 11.99	241,487	181,165
	12.00 – 12.99	399,668	307,069
	13.00 – 13.99	221,694	167,510
		<b>1,114,899</b>	<b>843,572</b>
2013 – 2014	11.00 -11.99	618,515	455,184
	<b>618,515</b>	<b>455,184</b>	
	<b>2,553,648</b>	<b>1,986,315</b>	
<b>Accrued Interest</b>	<b>8,387</b>	<b>8,387</b>	
<b>Total</b>	<b>\$2,562,035</b>	<b>\$1,994,702</b>	

## SCHEDULE OF SIGNIFICANT INVESTMENTS

As at December 31, 1997

Investments held by the OPSEU Pension Plan Fund greater than \$5 million.

(Thousands)	<b>Number of Shares</b>	<b>Market</b>	<b>Cost</b>
<b>COMMON STOCKS</b>			
<b><u>Canadian</u></b>			
BCE Inc.	2526	\$119,682	\$68,944
Canadian Imperial Bank of Commerce	2629	117,240	55,107
Bank of Montreal	1693	107,226	59,267
Toronto Dominion Bank, The	1750	94,152	41,707
Bank of Nova Scotia, The	1262	84,943	43,450
Imasco Limited	1231	62,150	30,799
Petro-Canada	2132	55,444	32,538
Royal Bank of Canada	712	53,827	19,874
Northern Telecom Limited	408	51,926	28,921
Talisman Energy Inc.	1177	51,505	38,169
Canadian Pacific Limited	1150	44,269	23,094
Barrick Gold Corporation	1633	43,518	52,757
Nova Corporation	3127	42,523	36,560
Laidlaw Inc.	2147	36,311	26,294
Trizec Hahn Corporation	1082	36,130	27,752
Alcan Aluminum Limited	902	35,531	35,896
Westcoast Energy Inc.	1050	34,655	21,832
Newbridge Networks Corporation	673	33,699	25,980
Canadian National Railway Company	466	31,369	17,754
Renaissance Energy Ltd.	968	28,561	32,994
Noranda Inc.	1116	27,457	27,886
Telus Corporation	801	25,019	14,753
Newcourt Credit Group Inc.	643	24,879	19,210
Seagram Company Ltd., The	534	24,691	22,509
Alberta Energy Company Ltd.	834	23,149	20,229
Canadian Natural Resources Limited	754	23,078	24,187
Hudson's Bay Company	978	23,064	23,219
Potash Corporation of Saskatchewan Inc.	189	22,465	14,073
Avenor Inc.	1057	21,563	28,434
Placer Dome Inc.	1189	21,399	32,998
Magna International Inc.	235	21,092	16,062
Suncor Inc.	425	20,826	10,609
Geac Computer Corporation Limited	434	20,451	5,808
Methanex Corporation	1712	19,426	23,984
Abitibi-Consolidated Inc.	974	19,426	18,984
IPL Energy Inc.	290	18,912	10,345
BioChem Pharma Inc.	610	18,593	16,199
Bombardier Inc.	614	18,056	7,670
Canadian Tire Corporation Limited	587	18,012	10,326
Inco Limited	742	17,689	30,695

## SCHEDULE OF SIGNIFICANT INVESTMENTS

As at December 31, 1997

Investments held by the OPSEU Pension Plan Fund greater than \$5 million.

(Thousands)	Number of Shares	Market	Cost
<b>COMMON STOCKS</b>			
<b><u>Canadian</u></b>			
MacMillan Bloedel Limited	1140	\$16,935	\$20,429
IPSCO Inc.	299	16,577	8,385
TransCanada PipeLines Limited	523	16,469	9,339
Transalta Corporation	725	16,346	11,828
Cameco Corporation	352	16,337	14,373
CAE Inc.	1428	15,998	15,085
Molson Companies Limited, The	596	15,218	12,750
Falconbridge Limited	836	15,215	22,899
Loewen Group Inc., The	409	15,037	18,894
Thomson Corporation, The	376	14,775	6,470
Co-Steel Inc.	686	13,032	15,398
Anderson Exploration Ltd.	872	12,213	11,525
Poco Petroleum Ltd.	924	11,776	11,369
Northstar Energy Corporation	1158	11,640	13,985
Domtar Inc.	1165	11,595	13,258
Quebecor Inc.	452	11,594	8,687
Shaw Communication Inc.	709	10,778	6,162
Imperial Oil Limited	109	9,985	4,923
National Bank of Canada	397	9,368	3,750
Rio Algom Limited	380	9,172	12,018
QLT Phototherapeutics Inc.	572	9,154	15,876
Edperbrascan Corporation	335	8,686	4,684
Power Corporation of Canada	169	8,663	3,117
Quebecor Printing Inc.	342	8,359	8,029
Cadillac Fairview Corporation	243	8,066	8,000
Gulf Canada Resources Limited	773	7,728	6,810
Rigel Energy Corporation	659	7,711	8,864
Fairfax Financial Holdings Limited	24	7,702	3,017
Canadian Occidental Petroleum Ltd.	223	7,199	3,619
Teck Corporation	318	6,857	8,053
Power Financial Corporation	129	6,474	1,847
BC TELECOM Inc.	143	6,369	3,368
Philip Services Corporation	278	5,763	4,307
MacKenzie Financial Corporation	288	5,288	1,221
Air Canada	360	5,235	2,932
Agrium Inc.	299	5,207	3,778
George Weston Ltd	42	5,145	1,683
Moore Corporation Limited	209	4,483	5,160
Sherritt International	771	4,473	5,587
Kinross Gold Corporation	897	4,349	7,770
Cambior Inc.	456	3,856	7,070

## SCHEDULE OF SIGNIFICANT INVESTMENTS

As at December 31, 1997

Investments held by the OPSEU Pension Plan Fund greater than \$5 million.

(Thousands)	Number of Shares	Market	Cost
<b>COMMON STOCKS</b>			
<b>Foreign</b>			
Philip Morris Companies Inc.	207	\$13,404	\$6,573
Mobil Corporation	114	11,807	7,246
BankAmerica Corporation	97	10,164	4,479
United Technologies Corporation	96	9,961	9,273
Novartis AG	4	9,196	4,937
Veba AG	38	9,055	5,815
Royal Dutch Petroleum Company	116	8,956	4,833
Zurich Versicherungs	13	8,877	4,711
Travelers Group Inc.	113	8,673	2,013
Allied Signal Inc.	148	8,198	8,552
McDonald's Corporation	119	8,125	7,984
Axa, S.A. de C.V.	73	8,054	6,693
Ameritech Corporation	70	8,029	6,529
International Business Machines Corporation	53	7,995	3,142
Societe Elf Aquitaines	47	7,778	5,788
Dupont De Nemours and Company	88	7,564	4,821
Unilever plc	611	7,503	5,010
Hartford Financial Services Group	55	7,351	6,479
Bell Atlantic Corporation	56	7,266	4,689
Edison International	185	7,182	5,961
General Motors Corporation	82	7,120	6,281
Nippon Telephone & Telegraph	1	7,100	7,000
Eni Spa Ads	861	6,986	5,901
Rhone-Poulenc S.A.	107	6,865	3,676
Chase Manhattan Corporation	44	6,863	2,478
American Home Products Corporation	61	6,678	6,195
Honeywell Inc.	67	6,548	6,439
Philips Electronics N.V.	76	6,498	5,018
Mannesmann AG	9	6,468	3,796
Hewlett-Packard Company	72	6,409	6,429
B.A.T. Industries plc	489	6,382	5,145
Ricoh Co., Ltd	355	6,330	5,356
Diageo plc	477	6,289	4,822
British Petroleum Company plc	333	6,281	5,593
Honda Motor Company	118	6,221	4,213
Aetna Life and Casualty Company	61	6,109	6,066
Prudential Corporation plc	351	6,109	4,425
National Power Equipment Co.	428	6,080	4,278
Matsushita	307	6,024	6,691
Sears Roebuck and Company	91	5,899	4,759
British Aerospace plc	142	5,815	1,488

## SCHEDULE OF SIGNIFICANT INVESTMENTS

As at December 31, 1997

Investments held by the OPSEU Pension Plan Fund greater than \$5 million.

(Thousands)		<b>Number of Shares</b>	<b>Market</b>	<b>Cost</b>
<b>COMMON STOCKS</b>				
<b><u>Foreign</u></b>				
	Sony Corporation	44	\$5,554	\$3,424
	Deere & Company	66	5,527	3,466
	Knight-Ridder Inc	74	5,521	5,243
	Dresdner Bank AG	84	5,449	4,608
	Cognizant Corporation	85	5,422	3,768
	Svenska Handelsbanken	109	5,411	2,848
	General Electric Company	50	5,208	2,130
	Heineken NV	21	5,208	4,500
	Granada Group plc	234	5,141	4,320
	Safeway Stores Inc.	57	5,123	2,897
	Nestle AG	2	5,111	3,352
	Cadbury Schweppes plc	349	5,089	3,651
	National Westminster Bank plc	211	5,055	4,128
	Fleet Financial Group Inc.	47	5,021	4,250
	Sumitomo Int'l	386	2,880	6,236

(Thousands)		<b>Number of Units</b>	<b>Market</b>	<b>Cost</b>
<b>POOLED EQUITY FUNDS</b>				
<b><u>Foreign</u></b>				
	Barclays Global Investors N.A., Equity Index Funds B.	3505	\$581,202	\$272,475
	Barclays Global Investors N.A., EAFE Equity Index Funds B.	6951	270,955	227,809

## SCHEDULE OF SIGNIFICANT INVESTMENTS

As at December 31, 1997

Investments held by the OPSEU Pension Plan Fund greater than \$5 million.

(Thousands)	Par Value	Market	Cost
<b>FIXED INCOME</b>			
<b><u>Canadian</u></b>			
Special Ontario Government debentures	\$1,759,632	\$2,553,648	\$1,986,315
Government of Canada Bonds (1998 – 2027)	669,483	734,578	707,653
Ontario Province (2002 – 2027)	43,900	52,912	51,458
Quebec Province (1999 – 2007)	22,505	23,723	23,237
Transca Pipeline Ltd Notes (2009 – 2027)	11,095	15,002	13,765
Canadian Imperial Bank of Commerce 2011	8,625	9,617	9,360
General Motors Accept Corp Med/Term Note (1998 – 2000)	9,020	9,087	9,028
GMAC of Canada 2000	8,425	8,400	8,469
Bank of Montreal 13/09/2010	6,000	7,023	6,814
Bank of Nova Scotia (2001 – 2006)	5,825	6,256	6,270
Thomson Corp Deb 06/07/2004	5,220	6,089	5,734
Greater Toronto Airports (2002 – 2027)	5,440	5,385	5,420
Nav Canada 01/06/2004	5,000	5,175	4,997
<b>DISCOUNT NOTES</b>			
<b><u>Canadian</u></b>			
Government of Canada Treasury Bills		\$92,215	\$92,215
Canadian Imperial Bank of Commerce		12,919	12,919
Bank of Nova Scotia		9,031	9,031
Royal Bank		8,938	8,938
Toronto Dominion Bank		8,934	8,934
Bank of Montreal		5,943	5,943
<b><u>Foreign</u></b>			
Gartmore Foreign Currency		26,775	26,775
Lazard Foreign Currency		9,464	9,464

## THREE-YEAR REVIEW

(\$ Thousands)	1997	1996	1995
<b>CHANGE IN NET ASSETS</b>			
<b>Income</b>			
Net investment income	\$ 463,037	\$ 440,669	\$ 379,048
Unrealized gain	518,124	586,577	599,992
Contributions			
Members	134,834	123,043	147,416
Employers	132,833	45,108	70,495
Unfunded liability payments	24,241	–	–
Transfers from other plans	2,123	1,172	564
Transfer of assets from Ontario Pension Board	–	53,062	–
<b>Total Income</b>	<b>\$1,275,192</b>	<b>\$ 1,249,631</b>	<b>\$ 1,197,515</b>
<b>Expenditures</b>			
Pensions paid	140,598	105,153	73,762
Termination payments and transfers	153,663	38,304	16,470
Operating expenses	14,908	14,823	12,460
<b>Total Expenditures</b>	<b>\$ 309,169</b>	<b>\$ 158,280</b>	<b>\$ 102,692</b>
<b>INCREASE IN NET ASSETS</b>	<b>\$ 966,023</b>	<b>\$ 1,091,351</b>	<b>\$ 1,094,823</b>
<b>NET ASSETS</b>			
<b>Investments</b>			
Special Ontario Government debentures	\$2,562,035	\$ 2,456,880	\$ 2,407,671
Cash and short term investments	200,438	170,680	96,845
Bonds	621,167	404,277	340,683
Real return bonds	340,689	289,338	88,875
Equities – Canadian	2,314,081	2,027,392	1,601,350
– Foreign	1,653,625	1,331,042	1,086,961
Real estate	15,329	1,000	–
	<b>\$7,707,364</b>	<b>\$ 6,680,609</b>	<b>\$ 5,622,385</b>
Contributions receivable from			
Members	11,575	11,125	10,703
Employers	23,107	20,106	19,341
Due from Ontario Pension Board	–	64,260	32,000
Fixed assets	3,261	3,371	2,665
<b>Total Assets</b>	<b>\$7,745,307</b>	<b>\$ 6,779,471</b>	<b>\$ 5,687,094</b>
Liabilities	\$ (4,765)	\$ (4,952)	\$ (3,926)
<b>Net Assets</b>	<b>\$7,740,542</b>	<b>\$ 6,774,519</b>	<b>\$ 5,683,168</b>
Actuarial smoothing	(775,541)	(595,883)	(136,405)
Actuarial value of net assets	6,965,001	6,178,636	5,546,763
Accrued pension benefits	6,648,487	6,179,957	6,305,566
<b>Surplus (Deficiency)</b>	<b>\$ 316,514</b>	<b>\$ (1,321)</b>	<b>\$ (758,803)</b>
<b>PERFORMANCE (%)</b>			
Rate of return	14.7%	18.3%	21.7%
After inflation	14.0%	16.1%	20.0%
Benchmark	13.7%	17.1%	17.7%
After inflation	13.0%	14.9%	16.0%

## Board of Trustees

Jennifer Brown, Chair <sup>(2)</sup> <sup>(3)</sup> <sup>(4)</sup> <sup>(6)</sup>

Manager, Benefits and Pensions Policy  
Management Board Secretariat

Grant MacGillivray, Vice-Chair <sup>(1)</sup> <sup>(2)</sup> <sup>(4)</sup> <sup>(5)</sup>

Executive Officer  
Ministry of Finance

Bruce Curwood, MBA <sup>(1)</sup> <sup>(3)</sup> <sup>(6)</sup>

Senior Consultant  
Frank Russell Canada

Heather Gavin <sup>(2)</sup> <sup>(3)</sup> <sup>(4)</sup> <sup>(5)</sup>

Assistant to the President  
OPSEU

Stephen Huff, CMA <sup>(4)</sup> <sup>(5)</sup>

Senior Field Auditor  
Ministry of Finance

Len Hupet <sup>(1)</sup> <sup>(2)</sup> <sup>(5)</sup>

Vice-President and Treasurer  
OPSEU

Ingrid Peters, LL.B. <sup>(2)</sup> <sup>(6)</sup>

Director of Legal Services  
Ministry of Economic Development,  
Trade and Tourism

Stanley F. Sanderson, CFP, RFP, CIM, FCSI <sup>(4)</sup> <sup>(6)</sup>

Vice President, Senior Financial Advisor  
The Equion Group

Paul Scott <sup>(1)</sup> <sup>(2)</sup> <sup>(6)</sup>

Assistant Deputy Minister  
Sport, Recreation and Ministry  
Regional Services Division  
Ministry of Citizenship, Culture and Recreation

(At December 31, 1997, there was one trustee  
vacancy, representing an OPSEU-appointed position.)

The following Trustees left the Board in 1997; the  
OPT thanks them for their significant contribution:

Pauline Lai CGA, MBA, CFA <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup> <sup>(5)</sup> --

to February 1997  
Senior Analyst, Risk Control  
Ministry of Finance

Qaid Silk, M.Sc. <sup>(1)</sup> <sup>(4)</sup> <sup>(6)</sup> -- to July 1997

Director, Province of Ontario Savings Office  
Ministry of Finance

<sup>(1)</sup> Adjudication Committee

<sup>(2)</sup> Administration Committee

<sup>(3)</sup> Audit Committee

<sup>(4)</sup> Investment Committee

<sup>(5)</sup> Appointed by OPSEU

<sup>(6)</sup> Appointed by Government of Ontario

## Standing Trustee Committees

The Adjudication Committee acts impartially to review  
disputed administration decisions regarding eligibility,  
benefits, entitlements and other rights under the  
OPSEU Pension Plan.

The Audit Committee reviews the adequacy and  
objectivity of financial statements. It ensures an  
effective system of internal controls is maintained over  
operational and financial reporting, and that systems  
and processes comply with applicable laws and  
professional standards.

The Administration Committee monitors service,  
communications, and operational expenditures,  
providing a full review of plans and initiatives that  
impact on member and pensioner service. It also  
makes recommendations on Plan amendments,  
legislative changes and administrative policies, and  
oversees the human resources management of OPT  
and the preparation of actuarial valuations.

The Investment Committee oversees the performance  
of the OPSEU Pension Trust Fund, and monitors  
individual investment managers. It reviews investment  
activity to ensure compliance with regulations and with  
OPT's investment policies. It recommends changes in  
investment policy or investment managers.

## Professional Advisors to the Trustees

Actuary

Buck Consultants

Auditors

Price Waterhouse

Investment Consultants

James P. Marshall, Inc.

Legal Counsel

Koskie Minsky

## Management Team

(at December 31, 1997)

Colleen Parrish, LL.B.  
Plan Manager

Roger Phillips  
Investment Coordinator

Sherry MacDonald, CA  
Treasurer and Director of Financial and Administrative  
Services

Dan McArthur  
Director, Policy and Trustee Support

Silvano Trinca, CA  
Director, Member and Pensioner Services

## How to reach us

Member Services and General Information  
1-800-906-7738 (1-800-90-OPSEU —  
toll-free in Canada)  
(416) 681-6161 (Toronto)

Pensioner Services  
1-800-906-7738 (1-800-90-OPSEU —  
toll-free in Canada)  
(416) 681-6100 (Toronto)

Pension and Commuted Value Estimates  
1-800-637-0024 (Toronto and toll-free Ontario)

Publications

*It's Your Pension*

*Your pension and your beneficiaries*

*Your pension and leaving your employment*

*Your pension and the Canada Pension Plan*

*OPTions* newsletter for plan members

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