



OPSEU Pension Trust
Fiducie du régime de
retraite du SEFPO



Serving those who serve Ontario

Annual Report 1998

With assets under management exceeding \$8.6 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 63,000 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 supports our pension promise
- giving members and pensioners a real voice in the plan through joint trusteeship.

1998 accomplishments

Realized a solid investment return during a volatile market

Improved the timeliness and quality of our personal service

Launched the OPT web site. Visit our site at www.optrust.com

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Financial Highlights

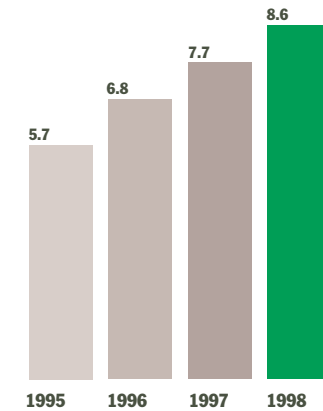
(\$ Thousands)

As at December 31	1998	1997
Net assets available for benefits	\$8,630,513	\$7,740,542
Canadian equities	2,247,003	2,314,081
Foreign equities	2,573,395	1,653,625
Government of Ontario debentures	2,639,214	2,562,035
Marketable fixed income	693,357	821,605
Real return bonds and real estate	446,023	356,018
Total increase in net assets	889,971	966,023
Actuarial value of net assets available for benefits	7,704,816	6,965,001
Accrued pension benefits	7,201,031	6,648,487
Surplus	503,785	316,514
Total portfolio return for the Fund	11.3%	14.7%

Net assets available for benefits

(\$ Billions)

As at December 31



Membership Statistics

	1998	1997
Members		
Total at December 31	52,519	55,067
Number of new members enrolled	2,038	1,110
Number of members terminated or retiring	4,586	5,158
Net decrease in active membership	(2,548)	(4,048)
Pensioners		
Total at December 31	11,024	9,001
Total Members and Pensioners	63,543	64,068

We report to you...

Message from the chair and vice-chair

AS TRUSTEES, our main responsibility is to you, the members and pensioners of the OPSEU Pension Plan. We recognize the important contribution you make to the well-being of Ontario, and your significant financial investment in this pension plan – a secure pension that can provide a foundation for your retirement. We continue to listen closely so that we can serve you better.

In last year's report we noted that after three years of exceptional investment returns, single-digit returns were expected for 1998. While the stock market did experience a significant downturn in the summer of 1998, the fund ended the year with an increase in assets to \$8.6 billion, representing a double-digit investment return of 11.3%. This contributed to an average 16.4% annual return since our inception in 1995. Our long-term focus helps weather market volatility to meet our future pension obligations.

On a financial statement basis, our financial surplus rose to \$504 million in 1998 from \$316 million in

1997. This is not an actuarial gain available to be shared by the plan members and the Government of Ontario, but it represents a positive trend. Each year of operation has marked improvements in our financial position.

In 1998, we continued to diversify our investment range and approach, introducing vehicles to enhance growth in global equity markets, and adding a manager to diversify investment styles in our Canadian equity portfolio. Diversification allows the fund to control risk and enhance its growth potential.

The short-term swings of the stock market brought home the benefits of our defined benefit plan, which provides a pension linked to salary and credited service, rather than month-to-month investment performance. While the media reported the difficulties of individuals retiring on market-based pensions during stock market downturns, OPT plan members continued to retire with a more predictable pension linked to their salary

and credit – a pension protected against inflation, and including survivor benefits for their families.

Our investment strategy and results – detailed in this report – support our pension promise to our members and pensioners.

In our fourth full year of operation, OPT continued to enhance its service to members by responding to their needs. We launched our website and popular pension calculator – the first step in giving members electronic access to information about the plan. We responded more promptly to your calls by staging the annual pension statement mailing over three months. We conducted focus groups to gain critical feedback on our materials and information programs.

Retirements and terminations in our plan, resulting from a significant restructuring in the Ontario Public Service, were slightly lower in 1998 compared to previous years, but 1999 is expected to have high numbers of retirements. OPT

Serving those who serve Ontario

continues to work to enhance its ability to serve members when they buy back service credit, transfer in, or leave the plan.

At the national level, OPT represented its members in a submission to the Senate Committee on Banking, Trade and Commerce. In its report released in the fall, the committee, chaired by Senator Michael Kirby, recommended that Canadian pension plans report annually on how they comply with guidelines set out by one of three national associations in the pension field. The OPT is reviewing these guidelines and aims to develop a compliance report for the 1999 year.

In late 1998, we were successful in obtaining court direction that would allow the plan to directly provide survivor benefits to the same-sex spouses of members; the trustees of this plan will always act to protect the legal interests of the plan and its membership.

During the year, we welcomed a new Trustee to the Board – Janine Johnson, a northern caseworker with the Ministry of Community and Social Services. We thanked Jennifer Brown as she completed her term as chair during a critical period in OPT's development; we are pleased that she continues as a trustee. We said farewell and thank you to Stephen Huff for his three years of service on the Board.

In the coming year, diversification will continue to be critical during expected volatility in the investment market. Our expectations of investment

returns are realistic for 1999. At the same time, the plan looks forward to the results of its next actuarial valuation, which focuses on the funding status of the plan. It is important to note that a mechanism is in place to share any gains from this valuation equally – 50% to members and 50% to the Government of Ontario. The members' share can be used to stabilize or reduce contributions, or to improve benefits, at the choice of OPSEU. The Government of Ontario must use its gains to reduce the initial unfunded liability of the plan and then can reduce its contributions or create a stabilization fund. A study of assets and liabilities completed in December 1998 shows the funded position is expected to continue to improve over time under several demographic and economic scenarios tested.

We want to ensure you will continue to be pleased with the service and security offered by the OPSEU Pension Plan. Because this is our responsibility – to serve those who serve Ontario.



Grant MacGillivray, Chair



Stanley F. Sanderson, Vice-Chair



OPT Chair Grant MacGillivray (above) and Vice-Chair Stan Sanderson.



Serving those who serve Ontario

Here for you

YOU ARE THE MEMBERS of the OPSEU Pension Plan.

At work, you provide community services, encourage small business, support agriculture, commerce and economic development. You promote health, and care for people when they are sick. You keep workplaces and highways safe, enforce laws, protect our natural resources, foster learning, and carry out a million other tasks to support a healthy and productive Ontario. *The money you and your employer contribute to your pension is an investment in your future.*

In retirement, you pursue new activities, challenges and dreams. You volunteer, find new work, or new ways to use your professional skills. You go back to school, spend time with family, travel, put up your feet, renovate, decorate your home and garden, or move to a new community. *Your monthly OPT pension payment – with its inflation protection – is an important part of your retirement income.*

At OPT, we are here to serve you – to carefully invest funds to support a lifetime income for you when you retire – a pension based on your salary and years of credited service.

To meet that goal, we need to understand your needs and interests. And we aim to measure our success through your eyes.

In 1998, we held focus groups and interviews with members and pensioners in different parts of Ontario. The purpose: to find out how well we communicate, to understand your perceptions of the OPSEU Pension Trust, and to hear about your experiences in seeking service and information.

Several points came across loud and clear:

Personal pension information

You are keenly interested in your personal pension entitlement – information that appears every year on your annual pension statement. If you are retired, you want to know that your payment will arrive reliably each month.

- In 1998, OPT mailed its annual pension statement in several stages to allow members to reach us more easily when they called with questions. The result: we were able to serve members more promptly when they called by reducing the volume of calls in any week during the mailing period from roughly 2,000 to 500.
- During the year, OPT also prepared to move to a uniform monthly pay date (the 26th) for 1999 pension payments, responding to comments from our pensioners. Where the 26th falls on a weekend, payments are made the preceding Friday. The new schedule is highlighted on a fridge magnet mailed to all pensioners.

Members and Pensioners



Richelle Kosar
Ontario Native Affairs Secretariat

What my work means to me:

Assisting with the legal aspects of land claim agreements and self-government negotiations are important parts of my work as a secretary to the director of the legal services branch. I appreciate having this part-time position because it supports my other occupation – as a writer. I published my first novel, *The Drum King* (Turnstone Press) in 1998. The book explores the volatile relationship between a Canadian woman and an Argentinian man. I've been pleased with the critical response, as well as personal responses from readers.

What my pension means to me:

My pension, like my part-time employment, is an anchor for me, and gives me some flexibility to pursue my writing, where the income is a bit less predictable. My OPT pension gives me a certain feeling of security about the future. With my pension, each month a bit more goes in to enhance my income for retirement.



Karim Hemani
Ministry of Transportation

What my work means to me:

I maintain and repair a system called COMPASS that monitors traffic flow on major highways. My work involves maintaining 70 cameras and about 400 detectors. They feed back information to 30 electronic signs that tell drivers, for example, that traffic is moving slowly in the collector lanes ahead. This gives drivers a warning, and maximizes the use of the highway. Our data also goes to radio and television reports. People appreciate the information, and that's rewarding for people like me who keep the system running.

What my pension means to me:

My OPT pension is a good form of savings, and provides security for the future. It's nice to know that the pension is adjusted according to the cost of living, and that there are medical benefits for members who have passed 10 years of service. In addition to the money I contribute to my pension, I also try to maximize my RRSP.



Donald Litt
Ministry of Finance – Retired 1993

What retirement means to me:

Time goes quickly. You're in your 30s and life is go, go, go and then you turn a corner and you're 60 and facing retirement. At work, I used to handle records for the retail sales tax. I've found that retirement is what you make it. As long as you have happiness, that's the biggest part. My wife and I love to visit God's country – northern Ontario. We have a camper van that's equipped with a small kitchen, washroom, heater and beds – our home on wheels. We travel to the North Bay area for hiking and fishing. It's peaceful and beautiful, and you also meet a lot of interesting people.

What my pension means to me:

It was a financial adjustment to go from salary to pension. You have to change your spending. But if you have a roof over your head, food on the table, and your health, what more do you want? Besides my regular pension cheque, I also have the health and dental benefits that go with it, which are important.

Information access

You appreciate our toll-free information line, and being able to speak to a real person when you call your pension plan. You want to know where to get more information through booklets, internet resources and telephone service. You are interested in news about changes to the plan, and general information, but your time is valuable: the information should be concise.

- The OPT's web site, also launched in 1998, is the first step in electronic communication with members. The site – www.opstrust.com – features a pension calculator, answers common questions, and provides general information about the plan. In its first month, the site recorded more than 1,000 visitors.
- In 1998, the OPT published a revised plan booklet, describing how the pension works throughout the lifetime of a member. *It's Your Pension* was distributed to all plan members in the spring.

The OPSEU Pension Trust will continue to use your comments and suggestions to improve our service to you.

A presence in your workplace

You appreciate it when we visit your workplace to explain the pension plan, and you'd like us to do this more often.

- We responded to dozens of requests for special presentations at worksites in 1998. In 1999, the OPT board will look at the broader issue of personal service, and consider ways of expanding our service to reach you where you work.

Standing up for our members and pensioners

An important part of OPT's role is to represent the interests of its members when it comes to issues of policy or law.

In 1998, OPT was invited to make a presentation to the Standing Senate Committee on Banking, Trade and Commerce. The committee conducted a fact-finding study of the role of pension plans, banks and mutual funds in the investment market, and the governance of these institutions. OPT stressed the benefits of its joint trustee model, its move towards a diversified investment portfolio, and the end result: a pension benefit earned by members that provides dignity in retirement for them and their families. The committee released its report in the fall of 1998, calling for pension plans to comply with standards set by national associations. OPT is reviewing these guidelines and will report on its compliance for the 1999 year.

OPT also made a case to the Senate Committee for a level playing field when it comes to how the Goods and Services Tax (GST) is applied to pension plans – specifically, that jointly-sponsored plans such as OPT should receive GST treatment that is more comparable to that of other single-sponsor pension plans. We will communicate developments on this issue to our members.

In 1998, OPT trustees sought a court opinion on the provision of survivor benefits for members with same-sex spouses. The goal: that members with spouses of the same or opposite sex are treated equally in the provision of survivor benefits. In

December, 1998, a ruling in favour of the trustees' application was announced, allowing these benefits to flow directly from the OPSEU Pension Plan, rather than a supplementary arrangement. The result: these members will no longer face tax problems, additional processing requirements, or the potential loss of benefits.

Supporting young careers

Many OPT members and pensioners express concerns about the difficult job market for young people. OPT's co-op student program provides critical work experience for young people from an academic setting. Each quarter, a new group of university students joins the OPT. Recruited from the math, sciences, engineering and arts fields from the University of Waterloo and the University of Toronto, students use their specialized skills in file processing and customer service. Several students have gone on to full-time work here at OPT. All have gained both valuable work experience that will assist in their future job search and career development, and income to help pay for their education.

Enhancing service

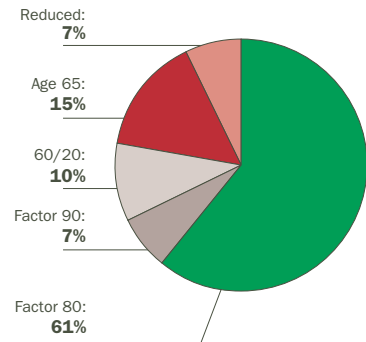
Members deserve prompt service when they buy back credit, or leave the plan. In 1998, OPT continued to improve the timeliness of its service. Retirements are now processed up to two months in advance, while overdue termination cases, for example, were reduced to 438 in 1998, from 767 in 1997, and 2,573 in 1996. As well, we continued initiatives to enhance the accuracy of data.

Serving those who serve Ontario

SERVICE ENHANCEMENT: REDUCING BACKLOG CASES

Cases	Dec. 31, 1998	Dec. 31, 1997	Dec. 31, 1996
Retirements	0	0	0
Post-retirement transactions	2	0	1,075
Terminations	438	767	2,573
Transfers	82	228	254
Buybacks	803	1,014	1,203
Other	213	225	365
Total	1,538	2,234	5,470

Retirement trends 1998



Factor 80: Age and years of credit total exactly 80. Applies to members who meet criteria on or before March 31, 2000.

Factor 90: Age and years of credit total at least 90.

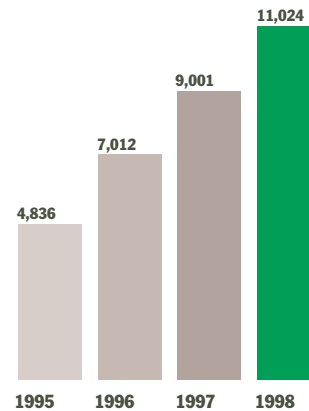
60/20: Age 60 or more plus 20 years of credit.

Reduced: Pension is reduced by about 5% for each year below age 65; available to members age 55 and older who do not qualify for an unreduced pension.

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

OPT Pensioner Population

As at December 31



Pension basics: 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 CPP) towards their pension. Their employer makes a similar contribution. And the Government of Ontario makes special monthly payments to pay off an unfunded liability inherited when the plan was created.

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 rates)

times credit (years and months of credited service in the plan)

less CPP integration
(a reduction at age 65)

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 (provided by employer)

MEMBERSHIP STATISTICS

(At December 31)

	1998	1997	1996
Total members	52,519	55,067	59,115
Active members	50,280	54,213	58,916
Former members with entitlements in the plan	2,239	854	199
Female/male ratio	55:45	54:46	54:46
Average age	43.9	43.7	42.6
Average salary	\$40,646	\$40,232	\$40,600
Average years of credited service	12.4	12.3	11.6
Number of members enrolled	2,038	1,110	1,024
Number of members terminated or retiring	4,586	5,158	6,209
Net decrease in total members	(2,548)	(4,048)	(5,185)
Total pensioners	11,024	9,001	7,012
Average age	60.0	60.0	60.0
Average annual pension	\$17,370	\$17,390	\$16,942
Number of pensioners by type of pension			
Normal and early unreduced	9,569	7,839	6,190
Reduced	908	734	518
Eligible survivors	540	423	301
Disability	7	5	3
Total Members and Pensioners	63,543	64,068	66,127

Note: 1997 figures have been restated from previous annual report to reflect divestments that had been reported by employers but did not occur.

Our members and pensioners

The Plan has more than 52,000 members across Ontario. They are Ontario civil servants and other employees represented by OPSEU as well as the Amalgamated Transit Union Local 1587, the Ontario Liquor Board Employees Union and the Canadian Union of Public Employees Local 3096. In addition, more than 11,000 pensioners live across Ontario and around the world.

In 1998, OPT's pensioner population increased by about 2,000, reflecting continued early retirements related to government restructuring.

The Factor 80 early retirement provision continued to account for the bulk of retirements in 1998.

Retirements and terminations from the plan continued at a high level, totalling 4,586.

There has been a continuing overall decline in active membership. However, the number of new members enrolling in our plan increased after two years of little change – we gained more than 2,000 new members in 1998, twice the number in 1997 and 1996.

The number of former plan members whose pensions remain with OPT after leaving employment continued to increase in 1998. Today, OPT has 2,239 former members whose entitlements remain in the plan in the form of a deferred pension.

Managing investment and controlling risk

Discussion and Analysis

OPT'S LONG-TERM FOCUS, asset diversification, and risk control strategies helped the fund weather the sharp drop in equity markets in the summer of 1998.

The Canadian equity market was hardest hit. Because the OPT remained invested, it recaptured most of the declines as the market began to recover later in 1998. OPT's fixed income investments served as a counterpoint during this period, offering more stable returns. OPT also capitalized on strong growth overall in the foreign equity market.

OPT's investment return on the total portfolio was 11.3%, exceeding the 7.5% annual return used in the actuarial valuation of the fund's ability to support its pension promise. While performance in 1998 fell short of the OPT Investment Benchmark of 13.2%, which represents the aggregate of market indices for each investment portfolio in its fund, a shift of some fixed income assets to the global equity portfolio mid-year allowed OPT to exploit strong gains in world markets. In particular, it

capitalized on growth in the U.S. market while carefully monitoring market concerns in areas such as Asia, Russia and South America.

In the four years since its inception, the OPT fund has realized an average return of 16.4%, exceeding OPT's four-year-average Investment Benchmark of 15.5%. During that period, OPT has been among the top performers of public sector pension plans in Ontario.

Investment returns in 1998 resulted in an increase in net assets available for benefits to \$8.6 billion at December 31, 1998 from \$7.7 billion the previous year.

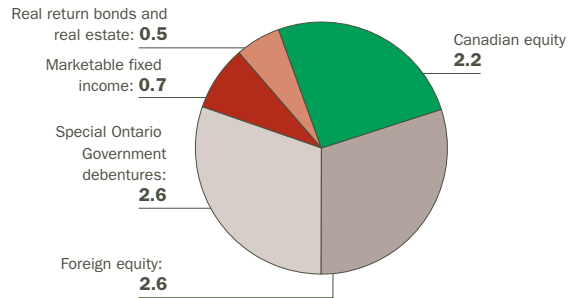
Exposure to global equities enhanced

OPT invests in a range of Canadian and global equities, bonds and other fixed income investments, real return bonds and real estate, to support its pension promise.

A significant change in 1998 was an increase from 20% to 30% in OPT's global equity portfolio, with continued compliance with Canada's regulations on foreign investment. Market studies have consistently shown the 30% level to offer a less volatile overall investment return pattern, and the potential for higher returns, with no increase in risk.

The move to 30% was accomplished in part through the introduction of a "synthetic equity" component, in the form of pooled funds managed by Barclay's Global Investors, one of OPT's external investment managers. This component represents the "index" part of our global portfolio.

1998 Asset Mix
(\$ Billions)



To support this change, OPT redirected funds previously managed in an active fixed income portfolio. As a result, OPT ended its relationship with Montrusco Associates in 1998.

The pooled funds hold synthetic equities which mimic the performance of the international Morgan Stanley Capital Index-ex Canada (MSCI ex Cda) while the underlying assets remain in the form of a short-term cash/bond portfolio in Canada, qualifying as Canadian content under the *Income Tax Act*.

Synthetic equities are based on the purchase of futures contracts – a type of derivative instrument. The derivative contracts are purchased on reputable international exchanges in amounts that replicate the different country weights on the Morgan Stanley index. OPT controls risk related to futures contracts by ensuring the contracts are not leveraged – that is, they are fully covered by reserves in the form of treasury bills. In addition, OPT purchases only publicly-traded futures contracts on reputable exchanges. OPT is therefore not exposed to the much-publicized risks linked to other types of derivative investments; OPT does not borrow money to make these investments.

Previously, OPT’s index managers directly purchased stocks on world indexes in amounts reflecting their relative weights in the market.

The new approach tracks the market in a similar manner, although with a slightly higher degree of variability – and the benefit of Canadian content status.

The move to synthetic equities allowed OPT to increase exposure to global markets in 1998, bringing the value of global equity and Canadian equity holdings into balance, each representing 30% of OPT’s total portfolio.

Over the long term, the increase from 20% to 30% means OPT is better positioned to take advantage of world markets, including a strengthened European common market. OPT investment managers continue to monitor areas of market concern, and to make investment decisions to reduce risk.

Canadian equity portfolio diversified

In 1998, OPT further diversified its Canadian equity investments, adding a third active manager. Guardian Capital uses a “growth” investment style, investigating the business outlook of individual companies to capitalize on growth opportunities, and has a track record of superior performance in the investment industry. This approach complements two other active managers using “value” and “sector/theme” strategies (see Investment Managers and Strategies, page 12).

The greater variety of investment “styles” is intended to help OPT control risk and capture future growth in Canadian equities.

One timely benefit of this move was that OPT held more cash than usual in its Canadian equity portfolio during the market drop in the summer of 1998; this softened the effect of the significant decline in equity markets on OPT’s fund.

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, leading corporations, and related cash and short-term investments, returned 9.2%, equal to the market benchmark for this portfolio. Continuing low inflation meant bond values did not change substantially in 1998; the annual return therefore largely reflects the “coupon” return on bonds and other fixed income investments.

OPT’s *Non-marketable* special Government of Ontario debentures returned 13.3%, reflecting market favour shown towards bonds with a somewhat longer duration.

Canadian equity

Our investments in stocks and share issues of leading Canadian corporations experienced a 0.3% loss in 1998. The loss reflects the market downturn in the summer, fuelled in part by concerns over the impact of the continuing Asian crisis and Russian economic collapse on Canada’s resource-based economy. The TSE 300, which serves as the investment benchmark for this portfolio, recorded a 1.6% loss in 1998.

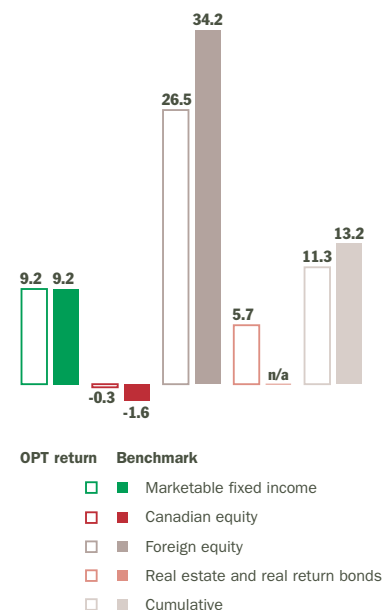
Foreign equity

Our foreign equity portfolio realized a return of 26.5%, underperforming the benchmark of 34.2%. Investors concerned about volatility elsewhere in the world turned to the U.S. in 1998, and the U.S. market performed strongly. OPT’s portfolio was underweight in Japan and the Pacific late in the year, which hurt performance against benchmark as these areas rebounded from earlier setbacks.

Real return bonds and real estate

Our inflation-protection component returned 5.7%. This component acts as a hedge against future inflation risk, as these investment types tend to perform well in periods of higher inflation. Investments in the Penreal Property Fund II and BG Preeco 7 reflect holdings in a variety of Canadian commercial, industrial and retail properties.

1998 returns vs. benchmarks



Investment strategy

OPT investments are managed externally by leading investment firms and held by an independent custodian, Royal Trust. OPT's investment co-ordinator reports directly to the OPT Board of Trustees, monitors fund investment practices and recommends strategies and policies. The Board retains independent investment consulting firm James P. Marshall Inc. for guidance on investment issues.

OPT uses both active and passive investment strategies, and a variety of investment "styles", to capture growth and control risk.

"Active" strategies focus on countries, market themes or sectors (a "top-down" approach), as well as individual stocks that represent good value or potential for growth (a "bottom-up" approach).

"Passive" strategies match a designated index such as the Toronto Stock Exchange (TSE) 300. They capitalize on collective market wisdom at a lower investment cost, and enhance market exposure, an important consideration for large funds.

For fixed income investments, managers look at trends in price "spreads" – for example, between government and corporate bonds – and at prices relative to standard "yield curves." They then use this information to purchase fixed income investments that have a greater potential for growth.

In 1998, the Board retained the following external managers to invest on behalf of the OPSEU Pension Plan Fund:

INVESTMENT MANAGERS AND STRATEGIES

	Manager	Strategy	Style
Canadian equities	TD Asset Management	Passive	Index (TSE 300)
	Beutel Goodman & Co.	Active	Value
	J.R. Senecal & Associates	Active	Sector/theme
	Guardian Capital	Active	Growth
Global equities	Barclays Global Investors	Passive	Synthetic index
	Gartmore Capital Mgmt.	Active	Country selector
	Lazard Asset Mgmt.	Active	Stock selector
Fixed income	Phillips, Hager & North	Active	Yield curve/ Spread mgmt.
	Monrusco Associates (to June 1998)	Active	Interest rate anticipator
Real estate	Beutel Goodman Real Estate Group	Active	n/a
	Penreal Capital Mgmt.	Active	n/a

Risk management

Effective risk management is integral to the objective of creating a strong financial foundation — to ensure that defined pension benefits will be available to members in their retirement years. OPT's Statement of Investment Policies and Goals sets out policies used to reduce risks linked to a variety of factors, including interest rates, foreign exchange rates, market changes, liquidity and credit.

The tools used by the OPSEU Pension Trust 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 investment costs incurred by the OPT compared to other pension plans.

More details on investment risks appear in the audited financial statements in this report.



Irene Phillips
Ministry of Energy, Science and Technology

What my work means to me:

I provide administrative support to staff in the Energy Policy Branch, and report to three team leaders who conduct economic analysis and forecasting. We're a brand new ministry as of December 1998, with a mandate that now covers energy-related programs, technology applications, and educational programs. I like the variety of my work, and the variety of people.

What my pension means to me:

My pension from OPT will be based on about 15 years of service when I retire. I am looking at ways to face the harsh fact of living on less income. I have been taking stock of my future retirement income. My OPT pension has inflation protection, and excellent benefits. In addition to my pension, I will have income from RRSPs and a more liquid emergency fund. I would like to enjoy an equally active social life in retirement, and continue many of my current activities. I'm active in the union, and with women's and human rights issues. I also belong to an Elvis Fan Club that takes me to conventions as far away as Graceland. My retirement will also include more quality time with my family, politics, volunteering and travel.

OPT's Asset Mix Policy establishes allowable ranges for proportional investment to control risk and support long-term growth for the OPSEU Pension Plan:

ASSET MIX POLICY

	Policy %	Minimum %	Maximum %
Canadian equities	30.0	25	35
Global (non-Canadian equities)	30.0	25	35
Equity (combined)	60.0	50	70
Real estate	4.5	n/a	n/a
Real return bonds	2.5	n/a	n/a
Inflation protection component	7.0	nil	10
Fixed income	33.0	20	50
Cash	nil	nil	5
Other assets (Trustee-approved)	nil	nil	10

The "Year 2000" or "Y2K" problem, also known as the "Millennium Bug," refers to the capability of computer systems to function correctly on or after certain dates including January 1, 2000. The problem arises because many computer programs have been programmed to recognize only the last two digits of a year, and therefore do not recognize the change of a century. The OPT has reviewed the status of its systems in light of the Y2K issue, according to Canadian Institute of Chartered Accountants guidelines and the Institute's bulletin: Guidance for Directors – the Millennium Bug. A complete elimination of risk related to Y2K is not possible. But a comprehensive program is in place at OPT to reduce risk. As part of its due diligence on this issue, OPT has assigned responsibility to senior management to address the issue by:

- reviewing OPT's own systems, with a priority on all critical systems
- reviewing those systems that OPT relies on through electronic linking
- assessing the Y2K-readiness status at all of OPT's major suppliers.

Managing Y2K and operational risk

OPT has implemented policies and procedures to reduce operational risks in general – for example, through financial controls, adequate back-up systems for data, segregation of duties, adequate insurance, staff training and contingency plans.

One significant area of operational risk for many organizations is the potential system problems caused by the year 2000 date change.

Through this review, OPT has established a risk analysis and follow-up risk management program. In terms of internal OPT systems, Y2K compliance either exists or is well in hand for the year 2000. OPT suppliers all have plans and specific dates in place to address the issue. In any event, OPT is monitoring the situation on a monthly basis, and has contingency plans for important obligations such as pensioner payroll.

Meeting the pension promise

TWO SNAPSHOTS of the financial health of the plan show that OPT is well-positioned to meet its pension promise:

- In 1998, the fund recorded a \$504 million surplus for financial statement purposes. This is not an actuarial gain available to the members and the Government of Ontario (for example, to be used to enhance benefits or reduce contributions), but it represents a positive trend. It is the fund's second consecutive financial statement surplus.
- Previous evaluations of the plan's funded status have shown progress in the relationship between the plan's unfunded liability and assets; the latest triennial evaluation will be complete in mid-1999, and gains are anticipated. Half of the gains resulting from this valuation may be used to enhance benefits or reduce contributions for members. The rest must be used by the Government of Ontario to reduce the unfunded liability of the OPSEU Pension Plan, inherited when the plan was established.

1998 financial statements

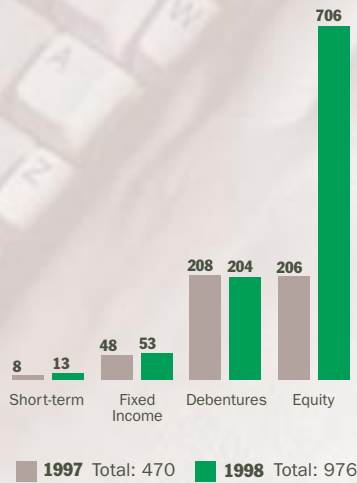
Increases in assets

Net assets available for benefits exceeded \$8.6 billion at December 31, 1998, an \$890 million increase over the previous year. Investment returns accounted for the bulk of the increase. Net investment income was \$967 million, compared to \$463 million the previous year. The unrealized decrease in market value of investments was \$100 million, compared with an increase of \$518 million the previous year. The changes reflect the drop in equity markets during the summer.

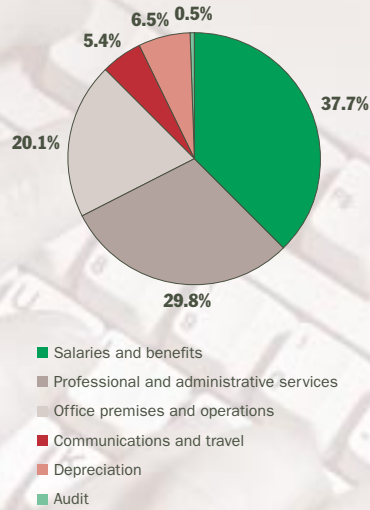
The asset mix (on a market value basis) at year-end 1998 comprised the following:

- fixed-income investments including special Government of Ontario debentures totalling \$3.3 billion, down from \$3.4 billion in 1997 following redirection of some assets to the global equity portfolio
- Canadian equities totalling \$2.2 billion, down from \$2.3 billion in 1997
- foreign equities totalling \$2.6 billion, an increase from \$1.7 billion the previous year
- an inflation-protection component (comprising real return bonds and real estate) of \$446 million, up from \$356 million in 1997.

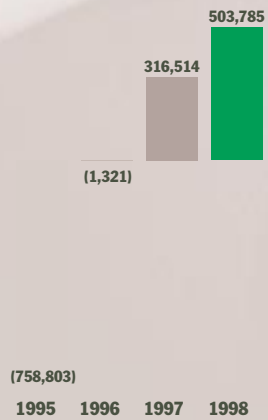
Investment Income (\$ Millions)



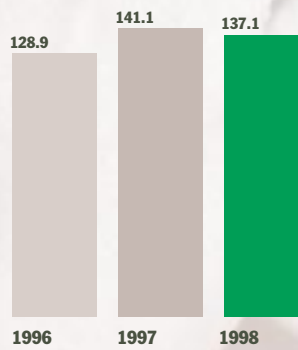
Operating Expenses for the year ended December 31, 1998



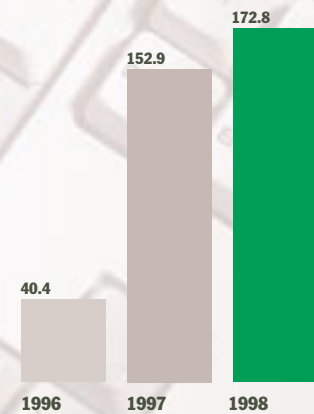
Financial Surplus (Deficiency) (\$ Thousands)



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



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



Serving those who serve Ontario

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

Investment expenses totalled \$8.6 million in 1998, compared to \$7.2 million in 1997. The increase reflects higher fund manager and custodial fees related to the larger portfolio. These expenses are deducted from any asset increase, before being recorded.

Contributions from members and employers – including transfers from other plans and special monthly payments from the Province of Ontario to reduce the unfunded liability – totalled \$310 million in 1998, compared to \$294 million the previous year.

Decreases in assets

OPT made pension payments totalling \$177 million in 1998, up from \$141 million in 1997. The change reflects OPT's growing pensioner population. It rose to 11,024 from 9,001 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.

Termination payments to members totalled \$93 million in 1998 compared to \$154 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 level

of payments also reflects the OPT's success in tackling case backlogs. In 1997, OPT was processing cases from previous years as well as most 1997 cases. In 1998, only late 1997 cases and 1998 cases needed to be done.

Operating costs were \$16.9 million in 1998, up from \$14.9 million in 1997. The increase included costs for special initiatives related to the installation of a new financial system and electronic records system, and distribution of a new plan booklet.

Net assets available for benefits

Net assets available for benefits for members and pensioners rose to \$8.6 billion in 1998 from \$7.7 billion the previous year.

Actuarial value of net assets

The actuarial value of net assets available for benefits was \$7.7 billion. This figure reflects an actuarial reduction in assets of \$926 million. When actuaries look at assets available, they average the increase in assets from investment income over a four-year period. This technique, called "smoothing," is designed to avoid volatility inherent in looking at only one year's investment return. In determining actuarial value, OPT's returns in 1995, 1996 and 1997 are considered, as well as some (about 25%) of 1998 returns.

Accrued pension benefits

The liability for benefits accrued by OPT members and pensioners – as assessed and estimated by OPT's actuaries – stood at \$7.2 billion at December 31, 1998.

Surplus (Deficiency)

Accrued pension benefits are subtracted from the actuarial value of net assets to arrive at a surplus or deficiency for 1998 financial statement purposes. OPT recorded a surplus of \$504 million in 1998, compared to a \$316 million surplus in 1997.

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.

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.

While the funding and financial statement valuations use the same demographic assumptions, the funding valuation uses more conservative economic assumptions overall than those used for the financial statements, as follows:

ECONOMIC ASSUMPTIONS

	Financial Statements 1998	Funding Valuation 1996
Investment return	7.50%	7.50%
Inflation rate	3.50%	3.75%
Salary escalation*	4.50%	4.75%

* percentage shown plus service-related promotion scale

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.

Actuarial valuation underway

OPT’s actuaries are conducting a funding valuation that will show OPT’s funded status at December 31, 1998. Reviews are conducted every three years according to provincial pension law. The current review will be complete in the summer of 1999.

Previous reviews have found that 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 and this was to be paid off by the Government of Ontario by the year 2029. 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: 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 level of the plan had risen.

The estimated unfunded liability at December 31, 1997 represented roughly 11.1% of assets, down from 12.8% two years earlier. We expect that when the current valuation is completed in mid-1999, further funding improvements will be demonstrated.

It also appears likely based on our 1998 financial statements and performance to date 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. The existence of gains to pay down the unfunded liability 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 yet fully funded.

As well, because the benefits under the OPSEU Pension Plan can be bargained by OPSEU and the Government of Ontario, existing gains or anticipated future gains (if actuarially acceptable) can be used for bargained benefit enhancements. This has happened in the past – for example, with the Factor 80 early retirement provision.

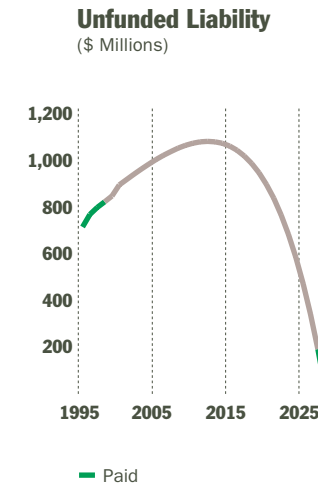
Unfunded liability payment progress

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. In 1998, the Province of Ontario continued monthly payments to reduce the unfunded liability.

Asset/Liability study

In 1998, the OPT Board commissioned a study to look at possible future trends in the membership of the plan, and performance of the fund over the next 10 years. In particular, the board wanted to understand the impact of reduced active membership in the plan due to government restructuring. The study looked at several scenarios involving decreases in active membership, increases in the average age of members, increases in the number of pensioners, and different economic models related to investment performance. It found that the funded position of the plan is expected to improve over time under each of the demographic

scenarios tested, including more adverse economic situations. Even in a worst-case scenario, there is only a small chance that the fund will require some additional contributions, the study found. It notes that the “key financial determinant of the fund’s development is the net real rate of return earned by the fund.” As OPT’s four-year investment performance shows, the fund has shown a positive trend in this regard since its inception, and continues to refine an asset mix policy that controls risk but enhances the potential for growth.



Financial Statements



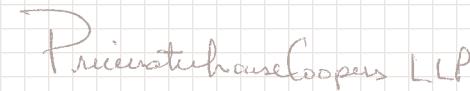
Auditors' report

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 of the Ontario Public Service Employees Union Pension Plan (the Plan) as at December 31, 1998 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus 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 of the Plan as at December 31, 1998 and the changes in its net assets available for benefits, accrued pension benefits and surplus for the year then ended in accordance with generally accepted accounting principles.



**Chartered Accountants
Toronto, Canada**

February 25, 1999

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, 1998 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

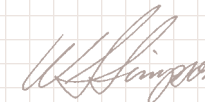
the December 31, 1996 funding valuation, the projected unit credit cost method prorated on services and management's best estimate assumptions for 1998 financial statement purposes as set out in Note 6(c). There have been no changes to the actuarial assumptions from those used in the previous valuation for accounting purposes as disclosed in Note 6(c). In our opinion, the assumptions are, in aggregate, appropriate for the purposes of the valuation.

For purposes of these 1998 financial statements, we have determined the actuarial value of both marketable assets and Special Ontario Government Debentures using a smoothing formula that recognizes investment gains and losses over four years. As stated in Note 6(b), the method of determining the actuarial value of Special Ontario Government Debentures has been changed from the 1997 financial statements where market value was utilized.

In our opinion, the December 31, 1998 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

February 25, 1999

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.

PricewaterhouseCoopers, 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

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

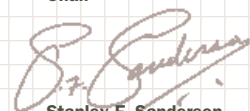
As at December 31, 1998

(\$ Thousands)

	1998	1997
ASSETS		
Investments (Notes 4 and 10)	\$ 8,570,108	\$ 7,683,375
Contributions receivable (Note 10)		
Members	13,081	13,474
Employers	19,389	21,208
Accrued income (Note 10)	28,884	23,989
Fixed assets	2,608	3,261
	8,634,070	7,745,307
LIABILITIES		
Accounts payable and accrued charges	3,346	2,632
Income tax withheld on pension benefit payments	211	2,133
	3,557	4,765
NET ASSETS AVAILABLE FOR BENEFITS	8,630,513	7,740,542
Actuarial asset value adjustment (Note 6)	(925,697)	(775,541)
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS	\$ 7,704,816	\$ 6,965,001
ACCRUED PENSION BENEFITS AND SURPLUS		
Accrued pension benefits	7,201,031	6,648,487
Surplus	503,785	316,514
ACCRUED PENSION BENEFITS AND SURPLUS	\$ 7,704,816	\$ 6,965,001

On behalf of the Board of Trustees


Grant MacGillivray
Chair


Stanley F. Sanderson
Vice Chair

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 1998

(\$ Thousands)

	1998	1997
INCREASE IN ASSETS		
Net investment income (Note 7)	\$ 966,955	\$ 463,037
Unrealized increase (decrease) in market value of investments	(99,559)	518,124
Contributions (Note 8)	309,854	294,031
	1,177,250	1,275,192
DECREASE IN ASSETS		
Pensions paid	177,086	140,598
Termination payments and transfers to other plans	93,277	153,663
Operating expenses (Notes 9 and 10)	16,916	14,908
	287,279	309,169
NET INCREASE FOR THE YEAR	889,971	966,023
NET ASSETS AT BEGINNING OF YEAR	7,740,542	6,774,519
NET ASSETS AT END OF YEAR	\$ 8,630,513	\$ 7,740,542

Statement of Changes in Accrued Pension Benefits

For the year ended December 31, 1998

(\$ Thousands)

	1998	1997
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	\$ 6,648,487	\$ 6,179,957
INCREASE IN ACCRUED PENSION BENEFITS		
Interest on accrued pension benefits	512,000	452,661
Benefits earned	310,907	330,314
Experience losses	-	188,232
	822,907	971,207
DECREASE IN ACCRUED PENSION BENEFITS		
Changes in actuarial assumptions and methods	-	208,416
Benefits paid	270,363	294,261
	270,363	502,677
NET INCREASE IN ACCRUED PENSION BENEFITS	552,544	468,530
ACCRUED PENSION BENEFITS, END OF YEAR	\$ 7,201,031	\$ 6,648,487

Statement of Changes in Surplus

For the year ended December 31, 1998

(\$ Thousands)

	1998	1997
SURPLUS (DEFICIENCY), BEGINNING OF YEAR	\$ 316,514	\$ (1,321)
Increase in net assets available for benefits	889,971	966,023
Change in actuarial asset value adjustment	(150,156)	(179,658)
Increase in actuarial value of net assets available for benefits	739,815	786,365
Net increase in accrued pension benefits	(552,544)	(468,530)
SURPLUS, END OF YEAR	\$ 503,785	\$ 316,514

Notes to the Financial Statements

For the year ended December 31, 1998

1. ONTARIO PUBLIC SERVICE EMPLOYEES UNION PENSION ACT, 1994

Based on the terms of a 1994 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 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 (which now includes the Alcohol and Gaming Commission of Ontario, formerly the Liquor Licence Board of Ontario), 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 and in a bargaining unit represented by the Ontario Liquor 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 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 best 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 "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 pension with survivor benefits above 50% of the member's benefits is actuarially reduced.

Notes to the Financial Statements

For the year ended December 31, 1998

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

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Realized gains and losses are credited or charged to investment income based on average cost or carrying value. 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.

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 prorated 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 11.74% with the final debentures maturing in 2014.

Price Risk

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 OSPEU 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.

- 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.

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

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.

Notes to the Financial Statements

For the year ended December 31, 1998

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

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, 1998, the Plan was holding \$2.6 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 low" or better. The Province of Ontario exceeds these credit requirements.

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

INVESTMENTS (\$ Thousands)	1998		1997	
	Market Value	Cost	Market Value	Cost
SPECIAL ONTARIO				
GOVERNMENT DEBENTURES	\$ 2,630,990	\$ 1,925,954	\$ 2,553,648	\$ 1,986,315
CANADIAN				
Cash and short-term investments	194,211	194,211	199,718	199,718
Bonds	894,142	861,261	949,285	915,203
Equities	2,239,762	1,844,093	2,310,140	1,717,003
	3,328,115	2,899,565	3,459,143	2,831,924
FOREIGN				
Cash and short-term investments	15,235	15,235	162	162
Bonds	1,526	2,262	2,671	3,946
Equities	1,231,667	888,349	800,265	627,925
Pooled equities	1,336,893	1,196,054	852,157	500,283
	2,585,321	2,101,900	1,655,255	1,132,316
REAL ESTATE	25,682	24,680	15,329	15,300
TOTAL INVESTMENTS	\$ 8,570,108	\$ 6,952,099	\$ 7,683,375	\$ 5,965,855

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.

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 and Special Ontario Government Debentures at December 31, 1998 have been determined using a formula that smoothes out the effects of the changes in market factors and recognizes the gains and losses over four years. The use of the smoothing method for the Special Ontario Government Debentures represents a change from the 1997 financial statements when the debentures were valued at market to determine their actuarial value. The effect of the change is to defer a gain of \$204 million which will be recognized in income over the next three years. Had the change in valuation method not been made, the surplus at December 31, 1998 would have been higher by \$204 million. The actuarial

Notes to the Financial Statements

For the year ended December 31, 1998

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 \$504 million as at December 31, 1998.

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 as follows:

	1998	1997
Investment return	7.50%	7.50%
Inflation rate	3.50%	3.50%
Salary escalation*	4.50%	4.50%

* percentage shown plus service-related promotion scale

The Trustees of the OPSEU Pension Plan reviewed the best estimate economic assumptions used for the December 31, 1996 financial statements by referring to historic surveys as well as medium and long-term forecast information. Based on this review, adjustments were made to the best estimate economic assumptions for the December 31, 1997 financial statements. The Trustees have

retained these adjusted best estimate economic assumptions for the December 31, 1998 financial statements. In the thorough consideration of assumptions, the Trustees decided that assumptions should be consistent for several years in order to better disclose year-over-year changes.

d) Experience Gains and Losses

There were no experience gains or losses recognized for 1998 in the financial statements since both the beginning of year and end of year benefit liabilities were based on an extrapolation of December 31, 1996 benefit liabilities. The same member data at December 31, 1996 was used for both the December 31, 1997 and December 31, 1998 financial statement benefit liabilities.

7. NET INVESTMENT INCOME

(\$ Thousands)	1998	1997
INTEREST INCOME		
Special Ontario Government Debentures	\$ 203,974	\$ 208,054
Cash and short-term investments		
Canadian	12,875	8,002
Foreign	506	65
Bonds		
Canadian	53,294	47,469
Foreign	12	115
TOTAL INTEREST INCOME	270,661	263,705
DIVIDEND INCOME		
Canadian	39,784	44,146
Foreign	17,640	12,238
TOTAL DIVIDEND INCOME	57,424	56,384
REAL ESTATE INCOME	1,892	170
REALIZED GAIN ON INVESTMENTS	645,580	150,014
TOTAL INVESTMENT INCOME	975,557	470,273
Investment expenses	8,602	7,236
NET INVESTMENT INCOME	\$ 966,955	\$ 463,037

8. CONTRIBUTIONS

(\$ Thousands)	1998	1997
MEMBERS		
Current service	\$ 125,534	\$ 129,739
Prior service	4,691	5,095
Long Term Income Protection (LTIP)*	6,864	6,262
	137,089	141,096
EMPLOYERS		
Current service	125,445	115,450
Prior service	4,201	4,254
Long Term Income Protection (LTIP)	6,864	6,867
Unfunded liability payments	33,874	24,241
	170,384	150,812
TRANSFERS FROM OTHER PLANS		
	2,381	2,123
TOTAL MEMBER AND EMPLOYER CONTRIBUTIONS	\$ 309,854	\$ 294,031

*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.

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.

9. OPERATING EXPENSES

(\$ Thousands)	1998	1997
Salaries and benefits	\$ 6,373	\$ 6,419
Professional and administrative services	5,035	3,945
Office premises and operations	3,404	2,767
Depreciation	1,092	840
Communications and travel	916	832
Audit	96	105
TOTAL OPERATING EXPENSES	\$ 16,916	\$ 14,908

10. COMPARATIVE FIGURES

Certain prior year figures have been reclassified for comparative purposes. Foreign currency forward contracts of \$300,000 have been reclassified from accrued income to investments. Members' portion of long term income protection contributions receivable of \$1.9 million have been grouped with members contributions receivable instead of employers contributions receivable. The classification of operating expense categories as disclosed in Note 9 have been changed from the prior year.

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of the employers, suppliers, or other third parties, will be fully resolved.

Schedule of Special Ontario Government Debentures

As at December 31, 1998

(\$ Thousands)

MATURITY DATE	COUPON %	MARKET	COST
1999 – 2003	8.00 – 8.99	\$ 24,152	\$ 22,431
	9.00 – 9.99	152,514	126,332
	10.00 – 10.99	98,411	85,867
	11.00 – 11.99	22	19
	13.00 – 13.99	28	23
	14.00 – 14.99	49	39
	16.00 – 16.99	36	29
		275,212	234,740
2004 – 2008	9.00 – 9.99	97,214	77,493
	11.00 – 11.99	112,910	87,328
	12.00 – 12.99	202,578	147,775
	13.00 – 13.99	140,782	105,617
	15.00 – 15.99	183,727	134,247
		737,211	552,460
2009 – 2013	10.00 – 10.99	265,391	187,153
	11.00 – 11.99	561,482	394,082
	12.00 – 12.99	214,698	154,759
	13.00 – 13.99	231,841	164,909
		1,273,412	900,903
2014	11.00 – 11.99	345,155	237,851
		345,155	237,851
		2,630,990	1,925,954
Accrued Interest		8,224	8,224
Total		\$ 2,639,214	\$ 1,934,178

Schedule of Significant Investments

As at December 31, 1998

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than \$5 million.

(Thousands)	NUMBER OF SHARES	MARKET	COST
COMMON STOCKS			
Canadian			
BCE Inc.	2,664	\$148,847	\$84,547
Canadian Imperial Bank of Commerce	2,538	96,436	58,229
Toronto Dominion Bank	1,782	95,871	53,301
Bank of Montreal	1,530	94,397	58,827
Northern Telecom Ltd.	1,143	87,585	54,387
Royal Bank of Canada	1,088	83,290	47,284
Bank of Nova Scotia	1,565	52,808	29,536
TransCanada Pipelines Ltd.	2,327	52,249	53,153
Barrick Gold Corporation	1,442	42,986	46,368
Petro-Canada	2,196	35,691	36,089
Seagram Company Ltd., The	609	35,497	27,411
Magna International Inc.	367	34,982	28,554
Laidlaw Inc.	2,193	33,877	29,348
Imasco Ltd.	1,033	33,770	11,499
Bombardier Inc.	1,338	29,455	10,891
Telus Corporation	898	29,169	26,442
Newbridge Networks Corporation	622	28,979	18,233
Newcourt Credit Group Inc.	541	28,961	23,283
Power Corporation	828	27,490	18,464
Hudson's Bay Company	1,404	27,159	34,591
Westcoast Energy Inc.	874	26,667	21,461
Canadian Pacific Ltd.	895	25,737	18,470
Enbridge Inc.	364	25,674	15,975
Trizec Hahn Corporation	786	24,770	20,187
Biochem Pharmaceuticals Inc.	546	24,068	14,090
Canadian National Railway Co.	299	23,833	14,816
Potash Corporation of Saskatchewan Inc.	230	22,622	17,274
CTV Inc.	991	21,919	21,310
Poco Petroleum Limited	1,690	21,631	21,645
Alcan Aluminum Limited	500	20,760	17,842
Call-Net Enterprises Inc.	1,397	19,254	28,630

Schedule of Significant Investments (cont'd)

As at December 31, 1998

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than \$5 million.

(Thousands)	NUMBER OF SHARES	MARKET	COST
COMMON STOCKS			
Canadian (cont'd)			
Renaissance Energy Ltd.	1,077	\$18,793	\$27,291
Thomson Corporation, The	517	18,564	12,388
Abitibi-Consolidated Inc.	1,242	17,629	21,495
Placer Dome Inc.	917	16,094	25,106
Geac Computer Limited	396	15,768	6,340
Cadillac Fairview Corporation	557	15,735	16,998
Inco Limited	992	15,715	29,308
Canadian Natural Resources Ltd.	670	15,416	18,475
Phototherapeutics Inc.	429	15,194	11,704
Anderson Exploration Ltd.	1,083	15,052	15,925
TransAlta Corporation	660	14,916	10,847
Teleglobe Inc.	269	14,821	6,047
IPSCO Inc.	538	14,662	10,948
Macmillan Bloedel Limited	942	14,407	16,886
National Bank of Canada	575	14,259	7,936
Talisman Energy Inc.	523	14,089	13,744
Cameco Corporation	513	14,074	18,616
Canadian Tire Corporation Ltd.	344	13,834	8,613
Loblaw Companies Ltd.	366	13,698	8,489
Methanex Corporation	1,706	13,645	21,221
Fairfax Financial Holdings Ltd.	25	13,443	4,030
Extendicare Inc.	1,505	13,090	17,606
Torstar Corporation	664	12,057	11,110
Rogers Communication Inc.	829	11,322	10,778
Molson Companies Ltd., The	507	11,154	10,651
Suncor Inc.	241	11,065	4,480
Cinram International Inc.	588	10,934	10,287
Quebecor Printing Inc.	311	10,353	7,241
Oxford Properties Group Inc.	562	10,220	9,642
Mitel Corporation	878	10,101	13,766
Quebecor Inc.	306	10,059	6,127
CAE Inc.	1,229	10,017	12,163

Schedule of Significant Investments (cont'd)

As at December 31, 1998

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than \$5 million.

(Thousands)	NUMBER OF SHARES	MARKET	COST
COMMON STOCKS			
Canadian (cont'd)			
MDS Inc.	332	\$9,805	\$7,798
Alberta Energy Company Ltd.	290	9,565	6,530
Falconbridge Limited	573	9,447	12,362
Northstar Energy Corporation	209	9,204	10,420
Nova Corporation	456	9,116	12,839
Noranda Inc.	586	8,944	10,712
Teck Corporation	766	8,577	12,342
Fletcher Challenge Canada Limited	501	8,568	8,723
PanCanadian Petroleum Ltd.	486	8,403	10,205
Power Financial Corporation	246	8,378	1,883
CCL Industries Inc.	439	7,794	6,866
Finning International Inc.	660	7,229	7,329
Imperial Oil Ltd.	285	6,998	4,384
George Weston Ltd.	117	6,870	1,672
EdperBrascan Corporation	322	6,852	4,647
Rigel Energy Corporation	666	6,659	8,648
Telesystem International Wireless Inc.	336	6,461	8,159
Ballard Power Systems Inc.	147	6,175	2,571
Co-Steel Inc.	478	6,090	10,460
Shaw Communication Inc.	161	5,969	2,375
Precision Drilling Corporation	336	5,867	6,642
MacKenzie Financial Corporation	276	5,776	1,358
Moore Corporation Ltd.	343	5,739	7,064
Allied Signal Inc.	84	5,690	4,917
BC Telecom Inc.	134	5,586	3,204
Euro-Nevada Mining Corporation Ltd.	211	5,271	1,808
Nexfor Inc.	871	5,269	6,195
Donohue Inc.	179	5,232	3,124
Franco-Nevada Mining Ltd.	175	5,141	3,472
Rio Algom Limited	305	5,009	8,010
Air Canada Inc.	833	4,973	5,869
Domtar Inc.	555	4,912	5,920
Gulf Canada Resources Ltd.	764	3,424	6,635
Sherritt International Corporation	1,000	3,000	6,335
Loewen Group Inc., The	162	2,028	6,584
Safeway Inc.	67	1,946	6,249

Schedule of Significant Investments (cont'd)

As at December 31, 1998

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than \$5 million.

(Thousands)	NUMBER OF SHARES	MARKET	COST
COMMON STOCKS			
Foreign			
International Business Machines Corporation	87	\$24,466	\$12,725
Philip Morris Companies Inc.	250	20,470	9,718
Mobil Corporation	147	19,655	11,517
AT&T Corp.	159	18,457	14,053
United Technologies Corporation	106	17,560	10,658
American Home Products Corporation	179	15,462	10,675
Bristol-Myers Squibb Company	75	15,381	13,451
Zurich Versicherungs	13	14,216	4,974
Exxon Corporation	120	13,408	13,117
Roche Holdings	1	13,195	12,228
Telefonica S.A.	191	13,096	9,008
First Union Corporation	135	12,546	11,400
Chase Manhattan Corporation	115	12,453	6,187
Prudential Corporation PLC	531	12,303	9,178
Telecom Italia	1,091	12,151	8,336
Bankamerica Corporation	131	12,081	7,035
Vivendi	30	12,017	6,744
DaimlerChrysler AG	79	12,015	8,271
Bell Atlantic Corporation	144	11,901	6,783
Allianz AG	21	11,870	9,514
Axa, S.A. de C.V.	52	11,604	5,628
Nestle	3	11,536	6,929
General Electric Company	74	11,505	5,310
McDonald's Corporation	97	11,345	6,830
Rite Aid Corporation	139	10,591	5,684
Heineken NV	114	10,504	4,482
Unilever PLC	602	10,371	8,440
Texas Instruments Inc.	77	10,117	6,137
General Motors Corporation	92	10,109	7,796
Johnson & Johnson	79	10,103	7,163
Wal-Mart Stores	80	9,971	6,255
South Western Bell	119	9,800	4,828
Motorola Inc.	103	9,589	7,924
British Aerospace PLC	731	9,516	3,299
American International Group Inc.	66	9,466	6,018
EMC Corporation	72	9,302	4,510
Microsoft Corporation	44	9,233	7,039
Fleet Financial Group Inc.	134	9,151	6,668

Schedule of Significant Investments (cont'd)

As at December 31, 1998

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than \$5 million.

(Thousands)	NUMBER OF SHARES	MARKET	COST
COMMON STOCKS			
Foreign (cont'd)			
MCI WorldCom Inc.	83	\$9,147	\$4,212
Novartis AG	3	9,058	6,509
Diageo PLC	512	8,954	6,015
Siemens AG	88	8,896	9,230
Ente Nazionale	881	8,864	7,388
Federal National Mortgage Association	78	8,834	4,232
Societe Elf Aquitaines	50	8,812	6,917
British Petroleum Company PLC	382	8,755	6,870
Hartford Financial Services Group	103	8,684	6,205
Nipsco Industries	185	8,599	5,772
BQE National Parts	67	8,440	5,538
Argentaria Corporation	208	8,266	5,495
Merck & Co.	37	8,240	7,577
Medtronic Inc.	71	8,049	4,891
Capital One	45	7,973	3,475
San Paolo-IMI SPA	293	7,956	6,297
Svenska Handelsbanken	122	7,926	3,665
Sony Corporation	70	7,845	6,617
Ricoh Co., Ltd.	548	7,775	7,869
Broken Hill Proprietary Company Limited, The	671	7,592	9,004
Citigroup Inc.	99	7,521	3,351
Hewlett-Packard Company	71	7,444	6,273
Sears Roebuck and Company	114	7,402	6,936
ING Group	79	7,394	5,855
Pfizer Inc.	39	7,385	2,274
Matsushita	271	7,377	6,385
HSBC Holdings	192	7,329	5,896
Cadbury Schweppes PLC	278	7,292	3,347
First Data Corporation	149	7,269	6,258
National Westminster Bank PLC	244	7,239	4,958
Sun Microsystems	55	7,208	1,548
NTT Mobile	1	7,028	6,135
Royal & Sun	560	7,025	8,573
Philips Electronic	67	6,889	4,565
Aetna Inc.	57	6,799	5,666
Rhone-Poulenc S.A.	84	6,615	3,307
USA Waste	75	6,611	4,302
Sanlam Ltd.	4,228	6,458	6,825
Nippon Telegraph & Telephone Corporation	1	6,353	6,510

Schedule of Significant Investments (cont'd)

As at December 31, 1998

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than \$5 million.

(Thousands)	NUMBER OF SHARES	MARKET	COST
COMMON STOCKS			
Foreign (cont'd)			
Granada Group PLC	234	\$6,351	\$4,320
Bank of Ireland	180	6,163	3,597
Endesa SA	151	6,163	5,613
British American Tobacco PLC	456	6,153	5,173
Warner-Lambert	53	6,087	2,785
Gillette Co.	82	5,979	4,168
Home Depot, Inc.	63	5,937	4,175
Hoechst AG	92	5,852	3,496
Honeywell Inc.	51	5,844	4,895
VIAG AG	6	5,786	3,493
FPL Group Inc.	61	5,772	5,815
Glaxo Wellcome PLC	109	5,761	3,472
TRW Inc.	67	5,757	5,540
Staples Inc.	85	5,663	3,978
UBS AG	12	5,663	5,673
Federated Department Stores	82	5,454	6,051
Mannesmann AG	30	5,333	1,706
Toys 'R Us	205	5,309	8,082
Tele Danmark	26	5,307	2,977
Tellabs Inc.	50	5,268	4,648
Minnesota Mining & Manufacturing	48	5,214	5,941
Cie De St. Gobain	24	5,163	4,435
Fujitsu	46	5,105	2,614
ABB AB	311	5,099	6,284
Astra AB	163	5,086	2,218
Associates First	78	5,085	4,372
Alcatel	27	5,059	3,892
Lockheed Martin	33	4,293	5,444
Sumitomo International	729	2,978	8,539
(Thousands)	NUMBER OF UNITS	MARKET	COST
POOLED EQUITY FUNDS			
Foreign			
Barclays Global Investors N.A., Synthetic Equity Index Funds B.	24,650	\$696,180	\$639,993
Barclays Global Investors N.A., Synthetic EAFE Equity Index Funds B.	19,907	342,944	362,344
Barclays Global Investors N.A., EAFE Equity Index Funds B.	5,881	296,560	192,738

Schedule of Significant Investments (cont'd)

As at December 31, 1998

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than \$5 million.

(Thousands)	NUMBER OF UNITS	MARKET	COST
POOLED REAL ESTATE FUND			
Canadian			
Penreal Properties Fund II Ltd.	4,000	\$21,002	\$20,000

(Thousands)	COUPON %	PAR VALUE	MARKET	COST
FIXED INCOME				
Canadian				
Special Ontario Government Debentures		\$1,719,734	\$2,630,990	\$1,925,954
Government of Canada Bonds (2001 – 2027)	4.25 – 11.75	613,041	681,432	656,661
Ontario Province (2001 – 2027)	6.59 – 10.13	64,350	82,743	80,049
TransCanada Pipelines Ltd. Notes (2009 – 2027)	6.05 – 10.63	15,305	19,346	18,133
General Motors Accept Corp Med/Term Notes (1999 – 2000)	5.00 – 6.05	10,275	10,289	10,231
Associates Capital Corporation of Canada (2000 – 2001)	5.57 – 5.70	9,925	9,961	9,922
Canadian Imperial Bank of Commerce (2011)	7.40 – 8.15	8,625	9,799	9,360
Master Credit Card Trust (2002 – 2004)	5.76 – 6.15	9,325	9,639	9,469
GMAC of Canada (2000)	5.45 – 5.75	8,775	8,789	8,791
International Bank (2008 – 2009)	10.50 – 10.75	5,100	6,934	6,120
Bank of Montreal (2008)	5.65	6,400	6,507	6,398
Canada Trustco Mortgage (2003)	5.50	6,250	6,306	6,246
Bank of Nova Scotia (2001 – 2006)	6.00 – 10.35	5,825	6,212	6,270
Toronto Dominion Bank (2006)	5.60	5,000	5,049	4,992
DISCOUNT NOTES				
Canadian				
Government of Canada Treasury Bills			\$99,258	\$99,258
Safe Trust			10,942	10,942
Phillips Hager & North STIF Pooled Fund			8,880	8,880
Consumers Gas			5,921	5,921
Pure Trust			5,578	5,578
Foreign				
Lazard Foreign Currency			19,087	19,087
Gartmore Foreign Currency			15,433	15,433

Four-Year Review

(\$ Thousands)	1998	1997	1996	1995
CHANGE IN NET ASSETS				
Income				
Net investment income	\$ 966,955	\$ 463,037	\$ 440,669	\$ 379,048
Unrealized increase (decrease) in market value of investments	(99,559)	518,124	586,577	599,992
Contributions				
Members	137,089	141,096	128,875	155,275
Employers	136,510	126,571	39,276	62,636
Unfunded liability payments	33,874	24,241	–	–
Transfers from other plans	2,381	2,123	1,172	564
Transfer of assets from Ontario Pension Board	–	–	53,062	–
Total Income	\$ 1,177,250	\$ 1,275,192	\$ 1,249,631	\$ 1,197,515
Expenditures				
Pensions paid	177,086	140,598	105,153	73,762
Termination payments and transfers	93,277	153,663	38,304	16,470
Operating expenses	16,916	14,908	14,823	12,460
Total Expenditures	\$ 287,279	\$ 309,169	\$ 158,280	\$ 102,692
INCREASE IN NET ASSETS	\$ 889,971	\$ 966,023	\$ 1,091,351	\$ 1,094,823
NET ASSETS				
Investments				
Special Ontario Government debentures	\$ 2,639,214	\$ 2,562,035	\$ 2,456,880	\$ 2,407,671
Cash and short-term investments	210,209	200,438	170,680	96,845
Bonds	483,148	621,167	404,277	340,683
Real return bonds	420,041	340,689	289,338	88,875
Equities - Canadian	2,247,003	2,314,081	2,027,392	1,601,350
- Foreign	2,573,395	1,653,625	1,331,042	1,086,961
Real estate	25,982	15,329	1,000	–
	\$ 8,598,992	\$ 7,707,364	\$ 6,680,609	\$ 5,622,385
Contributions receivable from				
Members	13,081	13,474	11,125	10,703
Employers	19,389	21,208	20,106	19,341
Due from Ontario Pension Board	–	–	64,260	32,000
Fixed assets	2,608	3,261	3,371	2,665
Total Assets	\$ 8,634,070	\$ 7,745,307	\$ 6,779,471	\$ 5,687,094
Liabilities	\$ (3,557)	\$ (4,765)	\$ (4,952)	\$ (3,926)
Net Assets	\$ 8,630,513	\$ 7,740,542	\$ 6,774,519	\$ 5,683,168
Actuarial smoothing	(925,697)	(775,541)	(595,883)	(136,405)
Actuarial value of net assets	7,704,816	6,965,001	6,178,636	5,546,763
Accrued pension benefits	7,201,031	6,648,487	6,179,957	6,305,566
Surplus (Deficiency)	\$ 503,785	\$ 316,514	\$ (1,321)	\$ (758,803)
PERFORMANCE (%)				
Rate of return	11.3%	14.7%	18.3%	21.7%
After inflation	10.3%	14.0%	16.1%	20.0%
Benchmark	13.2%	13.7%	17.1%	17.7%
After inflation	12.2%	13.0%	14.9%	16.0%

Members and Pensioners



Asha Chopra
Ministry of Health – Retired June 1996

What retirement means to me:

I retired after 27 years with MOH. Most recently I reviewed special medical claims cases, and preapproved claims for certain procedures. In retirement, there is more time to do the things I enjoy, and to find new activities. I design the patterns and colours for Afghans, sweaters and other knitting projects I'm working on for my family. I recently started Yoga, which gives me time for myself and a way to stay healthy. I also enjoy reading biographies; I'm currently reading a two-part biography of Pierre Trudeau. I find we now have more time to dine out, see movies and travel. Since I retired, we have spent two months in India, where I was born, and visited Europe.

What my pension means to me:

My OPT pension means financial security. It's a regular income for the rest of my life. I don't have to worry about being laid off, or looking for work. I can live with a feeling of security based on my pension income.



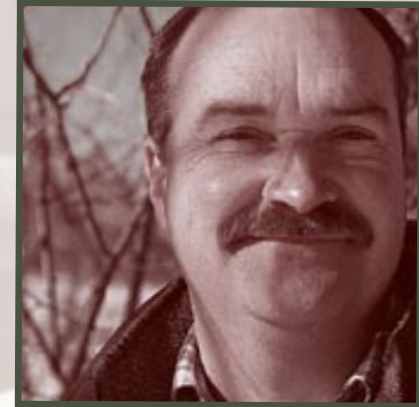
Anne Marie Brignolio
Ministry of Agriculture and Rural Affairs

What my work means to me:

When the ice storm hit in early 1998, my colleagues and I answered calls on a toll-free line. Many calls were from dairy farmers who had lost electrical power and whose herds were at risk. We were often able to find a generator that could be loaned for a few hours to allow the farmers to milk the cattle. Because I speak French, I was able to assist Francophone farmers in Eastern Ontario. We were all pleased to receive an Amethyst award recognizing the efforts of OMAFRA staff. I am now working as a project coordinator on a fund that supports job creation in rural Ontario. My recent projects include support for the tourism and beef industries.

What my pension means to me:

My pension is really my primary source of retirement income – that and my mortgage, which is another major form of savings. I know the pension is invested in diversified funds so that the plan is properly funded. I really appreciate the newsletters, which bring different aspects of the pension plan to my attention. Like most people, I will probably pay more attention to my pension the closer I get to retirement.



Warren May
Ministry of Natural Resources

What my work means to me:

Working with my colleagues and volunteers to reintroduce species such as the Osprey, wild turkey, and Peregrine Falcon are among the rewards of my 24 years with MNR. As a district coordinator of the Community Fisheries and Wildlife Involvement Program, I work closely with volunteer students, seniors and community groups. Our projects include wetlands restoration and nesting boxes for endangered birds. I bring my expertise as a biologist, and MNR resources. Our community participants give their time and energy. Together, we can have a great impact.

What my pension means to me:

My pension is very important to me, which is why I took advantage of the opportunity to buy back service for previous contract work. This will increase my pension, and allow me to retire earlier. The pension is a known quantity, and the inflation protection and survivor benefits give a feeling of comfort about the future.

How to reach us

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

Pensioner Services

1-800-906-7738 (toll-free in Canada)
(416) 681-6100 (Toronto)

Pension and Commuted Value Estimates

1-800-637-0024 (toll-free in Ontario)
(416) 681-6398 (Toronto)

Website

www.optrust.com



Publications

It's Your Pension – plan booklet

Your pension and your beneficiaries

Your pension and leaving your employment

Your pension and the Canada Pension Plan

OPTions newsletter for plan members

The Pension Connection

newsletter for pensioners

To order an OPT publication, please call
our toll-free general information line.

Board of Trustees

(at Dec. 31, 1998)
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Agent Conduct Officer
Financial Services Commission
of Ontario

Stanley F. Sanderson CFP, RFP, CIM, FCSI,
Vice-Chair ^{(2) (4) (6)}
Vice President, Senior Financial Advisor
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OPSEU

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Northern Caseworker
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Social Services

Ingrid Peters, LL.B. ^{(4) (6)}
Director of Legal Services
Ministry of Economic Development,
Trade and Tourism

Paul Scott ^{(1) (2) (6)}
Assistant Deputy Minister –
Year 2000 Initiative
Management Board Secretariat

- ⁽¹⁾ Adjudication Committee
- ⁽²⁾ Administration Committee
- ⁽³⁾ Audit Committee
- ⁽⁴⁾ Investment Committee
- ⁽⁵⁾ Appointed by OPSEU
- ⁽⁶⁾ Appointed by Government of Ontario

The following Trustee left the Board in
November 1998; the OPT thanks him for
his significant contribution:
Stephen Huff, CMA ^{(4) (5)}
Senior Field Auditor
Ministry of Finance

About the OPT Board of Trustees

The OPT is jointly sponsored by the Government
of Ontario and OPSEU. Each sponsor nominates five
trustees. Once appointed, trustees work to serve
the interests of OPT's plan members and pensioners.

They ensure that fund assets are invested wisely,
and that plan members and pensioners receive
benefits to which they are entitled. They must also
see that pension liabilities are properly evaluated,
and that the plan is properly administered and
effectively communicated to members
and pensioners.

To achieve these goals, the OPT Board obtains
direct, independent advice from legal, actuarial,
investment and accounting professionals. It also
controls the overall organizational design of the
OPT, which has about 120 employees.

A chair and vice-chair are each from one of the two
sponsor groups and these roles switch at the end of
each two-year term.

The benefit of joint trusteeship is that the two
parties contributing to the pension fund share in
the responsibility, risks and rewards of administering
the plan, and managing the fund.

Standing Trustee Committees

The Adjudication Committee provides an impartial appeal process for members or pensioners disputing OPT decisions regarding eligibility, benefits, entitlements and other rights under the OPSEU Pension Plan.

The Administration Committee conducts a full review of plan administration, including service, human resources, communications and operational costs. It makes recommendations on administrative policies, plan amendments and legislative changes. The committee also oversees the preparation of actuarial valuations.

The Audit Committee reviews OPT financial statements to ensure they are complete and objective. It oversees an effective system of internal controls for operational and financial reporting, and ensures OPT systems and processes comply with legal and professional standards.

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
PricewaterhouseCoopers LLP

Investment Consultants
James P. Marshall, Inc.

Legal Counsel
Koskie Minsky

Management Team

(at December 31, 1998)



Colleen Parrish, LL.B.
Plan Manager



Roger Phillips
Investment Coordinator



Graeme Isdale
Director, Information Technology



Dan McArthur
Director, Policy and Trustee Support



Silvano Trinca, CA
Director, Member and Pensioner Services

To November 1998:
Sherry MacDonald,
Treasurer and Director of Financial
and Administrative Services



OPSEU Pension Trust
Fiducie du régime de
retraite du SEFPO

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