

**Want the big picture?** A full-size report including OPT's audited financial statements and a schedule of investments is available in English and French on request from the OPSEU Pension Trust. The report is also filed with the Financial Services Commission of Ontario. Please call or write to us if you want a copy.

#### How can I reach OPT?

**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 and pension calculator:**  
[www.optrust.com](http://www.optrust.com)

#### Publications

To order these and other OPT publications, please call our general information line, toll-free.

- *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



## Annual Financial Report to Plan Members and Pensioners 1998



Serving those who serve Ontario



OPSEU Pension Trust  
Fiducie du régime de  
retraite du SEFPO

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OPSEU Pension Trust  
Fiducie du régime de  
retraite du SEFPO



# You are the **members** of the **OPSEU** Pension Plan

**At work**, you provide community services, support agriculture, commerce and economic development. You promote health, and keep workplaces and highways safe. You 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. You contribute 8% of your salary (adjusted to 6.2% of earnings for which you also contribute to the Canada Pension Plan) towards your pension, an amount matched by your employer.

**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 and survivor benefits — is an important part of your retirement.

**Your pension** is based on this formula:

2% of salary (typically the average of a member's highest consecutive five years of annual salary rates)

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

less CPP integration (a reduction at age 65)

At OPT, we are here to serve you — to carefully invest funds to support a lifetime income for you in retirement. Created in 1995, OPT exists to serve more than 63,000 members and pensioners:

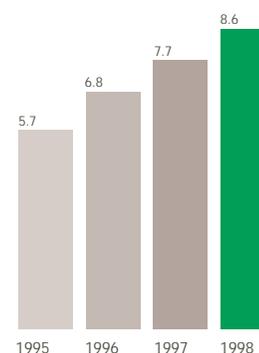
- by providing excellent service and communications
- by generating a return on investment to support its pension promise
- and by making joint trusteeship a reality — so that our members and pensioners have a real voice in the administration of their pension plan.

## FINANCIAL HIGHLIGHTS

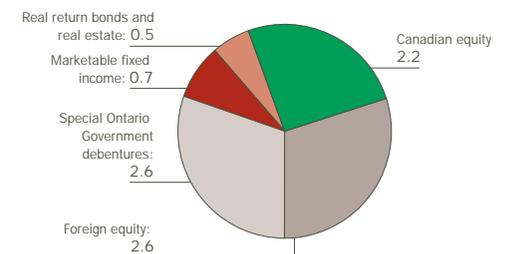
(\$ Thousands)

As at December 31	1998	1997
Net assets available for benefits	\$8,630,513	\$7,740,542
Assets adjusted for actuarial purposes	7,704,816	6,965,001
Future cost of pensions	7,201,031	6,648,487
Surplus	503,785	316,514
Rate of return on investments	11.3%	14.7%

Net assets available for benefits  
(\$ Billions)  
As at December 31



1998 Asset Mix  
(\$ Billions)



# 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 your important contribution to the well-being of Ontario, and your significant investment in this pension plan — a foundation for your retirement.

Last year, we noted that after three years of exceptional performance, expectations for 1998 were more cautious. Despite a significant downturn in the market in the summer of 1998, the fund ended the year with assets of \$8.6 billion, up from \$7.7 billion the previous year. This result was based on a solid investment return of 11.3%. The fund also recorded a financial statement surplus for its second consecutive year.

While the media reported the difficulties of individuals retiring on market-based pensions during the market downturn, OPT plan members continued to retire with a more predictable pension linked to their salary and credit — a pension protected against inflation, with survivor benefits.

In 1998, we continued to diversify our investment range and strategies. We introduced vehicles to capture growth in global equity markets, and added a manager to our Canadian equity portfolio.

In our fourth full year of operation, we also improved service to members and pensioners by:

- launching our website and popular pension calculator
- responding more promptly to your calls
- conducting focus groups to obtain critical feedback
- scheduling a uniform pension pay date, to meet needs of our retired members
- continuing to work with the employer to improve the quality of pension data.

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

Since it was created in 1995, the fund has averaged a 16.4% annual return on investment

Our investment expectations are realistic for 1999, given the unusually strong markets over the past four years. At the same time, the plan looks forward to results of the next review of its funding status. This review is expected to show continued improvements in the funded position of the plan. It's important to note that any gains from this process — called an actuarial valuation — will be shared equally between the members and the Government of Ontario.

We want to ensure you are 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 (left) and Vice-Chair Stan Sanderson.

# How is my pension invested?

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

OPT's long-term focus, and diversified investments, helped the fund weather a sharp drop in stock markets in the summer of 1998.

The Canadian equity market was hardest hit. Because the OPT remained invested in Canadian equities, it recaptured most of the declines during the recovery later in 1998.

OPT's fixed income investments, such as Canadian bonds, offered more stable returns during this period. OPT also benefited from strong growth in the foreign equity market. 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.

OPT's investment return on the total portfolio was 11.3%. This exceeded the 7.5% return assumption that OPT's actuaries use to assess the fund's ability to support its pension promise over the long-term.

In the four years since its inception, the OPT fund has realized an average return of 16.4%, exceeding OPT's four-year-average benchmark of 15.5%. The benchmark represents comparative

market performance for the different components of OPT's total portfolio.

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

A significant change in 1998 was an increase from 20% to 30% in OPT's global equity portfolio. Market studies have consistently shown the 30% level to offer a less volatile overall investment return, and the potential for higher returns.

The move to 30% was accomplished in part through the introduction of a "synthetic equity" component — a type of "derivative" instrument.

Derivatives involve a contract to obtain a certain value derived from a source other than that of the underlying assets. In the case of OPT's portfolio, these synthetic equities replicate the performance of a world index — the Morgan Stanley Capital Index-ex Canada. The underlying assets remain in the form of a short-term cash/bond portfolio in Canada. OPT purchases only publicly-traded futures contracts on reputable exchanges, and does not

A significant change in 1998 was an increase from 20% to 30% in OPT's global equity portfolio

purchase leveraged contracts. OPT is therefore not exposed to the much-publicized risks linked to other types of derivative instruments.

The assets continue to qualify as Canadian content under the *Income Tax Act*, so OPT continues to meet federal requirements regarding foreign content.

To support the move to a 30% global equity portfolio, OPT also redirected funds previously managed in a fixed income portfolio.

Over the long term, OPT is in a better position to take advantage of world markets, including a strengthened European common market.

In mid-1998, OPT further diversified its Canadian equity investments, adding a fourth manager. Guardian Capital uses a "growth" investment style. This approach complements two other active managers and an index component in our Canadian equity portfolio.

The table below shows OPT's asset mix (on a market value basis) at the end of 1998 and for the three preceding years:

## INVESTMENTS

(\$ Billions at Dec. 31)

	1998	1997	1996	1995
Fixed income	3.3	3.4	3.1	2.8
Canadian equity	2.2	2.3	2.0	1.6
Foreign equity	2.6	1.7	1.3	1.1
Real return bonds and real estate	0.5	0.3	0.3	0.1
Total	8.6	7.7	6.7	5.6

**Significant investments**

The OPSEU Pension Trust reports all investments over \$5 million — including Canadian and foreign equities, special Ontario Government debentures and marketable fixed

income investments — in its audited financial statements. To order a copy of the full-size annual report, see the instructions on the back of this booklet. This is a sample of Canadian equities held at December 31, 1998:

Canadian Common Stocks	Market Value at Dec. 31, 1998
BCE Inc.	\$149 million
Bank of Montreal	\$94 million
Bank of Nova Scotia	\$53 million
Petro-Canada	\$36 million
Laidlaw Inc.	\$34 million
Telus Corporation	\$29 million
Power Corporation	\$27 million
Canadian Pacific Ltd.	\$26 million
Biochem Pharmaceuticals Inc.	\$24 million
CTV Inc.	\$22 million

Note: figures rounded to nearest million



**Richelle Kosar**  
Ontario Native Affairs Secretariat

**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 other occupation as a writer, 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.

**Investment management and risk control**

OPT uses both active and passive (or index) approaches to investment. “Active” means that investment managers aim to exceed a market index through prudent trading. “Passive” means that managers match a designated index such as the Toronto Stock Exchange (TSE) 300.

To control risk, OPT employs a variety of strategies, including:

- diversification
- high credit standards
- limits on investment in any one entity
- continuous monitoring of results
- continuous monitoring of managers’ compliance with OPT standards.

The Trustees retained the following managers to invest on behalf of the OPSEU Pension Plan Fund in 1998:

**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.
	Montrusco Associates (to June, 1998)	Active	Interest rate anticipator
Real estate	Beutel Goodman Real Estate Group	Active	n/a
	Penreal Advisors	Active	n/a

OPT invested assets are held by an independent custodian, Royal Trust.



**Karim Hemani**  
Ministry of Transportation

**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.

# Is my pension secure?

Two snapshots of the financial health of the plan — our **funding status** and **financial statements** — show that OPT is well-positioned to meet its pension promise.

## Funding status

Previous evaluations of the plan's funded status have shown progress in the relationship between the plan's unfunded liability and assets. The latest three-year valuation will be complete in mid-1999, and gains are anticipated. Half of any gains may be used to stabilize or enhance benefits, or reduce contributions of members, at the discretion of OPSEU. The rest must be used by the Government of Ontario to reduce the unfunded liability of the OPSEU Pension Plan, which was inherited when the plan was created.

## Unfunded liability payments

In April 1997, the Government of Ontario began a series of special payments to pay down the unfunded liability, which was estimated at \$776 million at December 31, 1997. These payments, which include interest on the outstanding liability, are to continue until 2028 to eliminate the liability. However, it is likely to be paid off earlier. This is because the province must commit its share of any actuarial gains towards paying off any amount owed to the plan.

## Financial statements

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. However, it represents a positive trend, following the first recorded surplus in 1997.

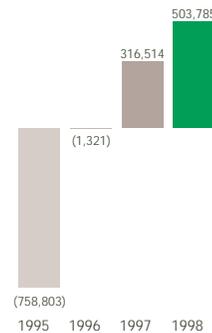
## Asset/Liability study

The funded position of the plan is expected to improve over time under several scenarios, including more adverse economic situations. This is the finding of a study of assets and liabilities commissioned by the trustees. The study found that even with a decrease in active membership over the next 10 years, the funded position for the year 2008 is projected at 114% (based on a mid-range of probability). 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 a key factor in the future is the rate of return earned by the fund. As OPT's four-year investment performance shows, the fund has shown a positive trend in investment performance since it was created.

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(\$ Thousands)	1998	1997
Net investment income	\$966,955	\$463,037
Unrealized increase (decrease) in market value of investments	(99,559)	518,124
Contributions	309,854	294,031
<b>Increase in Assets</b>	<b>1,177,250</b>	<b>1,275,192</b>
Pensions paid	177,086	140,598
Termination payments and transfers to other plans	93,277	153,663
Operating expenses	16,916	14,908
<b>Decrease in Assets</b>	<b>287,279</b>	<b>309,169</b>
Net increase for the year	889,971	966,023
Net assets at beginning of year	7,740,542	6,774,519
<b>Net assets at end of year</b>	<b>\$8,630,513</b>	<b>\$7,740,542</b>

Financial Surplus (Deficiency)  
(\$ Thousands)



## Managing Y2K and operational risk

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

One area of operational risk for many organizations is the "Year 2000" or "Y2K" problem. This refers to the ability of computer systems to function correctly on or after certain dates including January 1, 2000. 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 its systems in light of the Y2K issue, according to Canadian Institute of Chartered

Accountants guidelines. A complete elimination of risk related to Y2K is not possible. But a comprehensive program is in place at OPT to reduce risk.

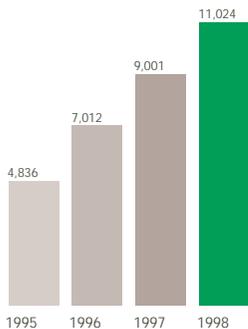
OPT has assigned responsibility to senior management to:

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

For OPT's own systems, Y2K compliance either exists or is well in hand for the year 2000. For its external suppliers, OPT notes that all have plans and specific dates in place to address the issue. In any event, OPT is monitoring the situation on a regular basis and has contingency plans for important obligations such as the pensioner payroll system.

## What kind of **service** can I expect?

OPT Pensioner Population  
As at December 31



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 — which 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 — and be served more promptly — when they called with questions.
- 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. We also worked to improve the printing quality of statements related to pension payments.

### 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.

- In 1998, the OPT published a revised plan booklet, *It's Your Pension*, describing how the pension works throughout the lifetime of a member.



The OPT's website, launched in 1998, is the first step in a new dimension of electronic communication with members. Check us out at [www.optrust.com](http://www.optrust.com)

### 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.

### Serving you when you retire, leave the plan or purchase service

Retirements are now processed up to two months in advance, while termination cases and buybacks were processed more promptly in 1998. Serving you better by reducing the case backlog continues to be a priority.

**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
<b>Total</b>	<b>1,538</b>	<b>2,234</b>	<b>5,470</b>

**OPT MEMBERSHIP**

Total membership decreased slightly during the year, reflecting a continuing high volume of early retirements and terminations. This was partially offset by an increase in new enrollments over the 1996–1997 period.

	1998	1997
Total members	52,519	55,067
Number of new members enrolled	2,038	1,110
Number of members who left the plan (including retirements)	4,586	5,158
Net increase (decrease) in active membership	(2,548)	(4,048)
Total pensioners	11,024	9,001
<b>Total Members and Pensioners</b>	<b>63,543</b>	<b>64,068</b>

Note: 1997 figures have been restated to reflect divestments which were reported by employers but did not occur.

**BOARD OF TRUSTEES**

(at December 31, 1998)

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

Grant MacGillivray, Chair  
Agent Conduct Officer  
Financial Services Commission of Ontario

Stanley F. Sanderson CFP, RFP, CIM, FCSI,  
Vice-Chair  
Vice President, Senior Financial Advisor  
The Equion Group

Jennifer Brown  
Director, Pension Data Purification Project  
Management Board Secretariat

Bruce Curwood, MBA  
Senior Consultant  
Frank Russell Canada

Heather Gavin  
Administrator of Central Services  
OPSEU

Anthony Ho, MBA, CISA, CGA, CFA  
Statistician  
Ministry of Municipal Affairs and Housing

Len Hupet  
Vice-President and Treasurer  
OPSEU

Janine Johnson  
Northern Caseworker  
Ministry of Community and Social Services

Ingrid Peters, LL.B.  
Director of Legal Services  
Ministry of Economic Development, Trade and  
Tourism

Paul Scott  
Assistant Deputy Minister — Year 2000 Initiative  
Management Board Secretariat

The following trustee left the Board in November 1998; the OPT thanks him for his significant contribution:

Stephen Huff, CMA  
Senior Field Auditor  
Ministry of Finance

**PROFESSIONAL ADVISORS TO THE TRUSTEES**

**Actuary**  
Buck Consultants

**Auditors**  
PricewaterhouseCoopers LLP

**Investment Consultants**  
James P. Marshall, Inc.

**Legal Counsel**  
Koskie Minsky

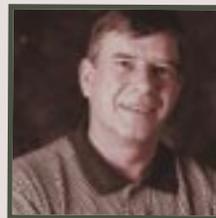
**MANAGEMENT TEAM** (at December 31, 1998)



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