

# We Report to You



OPSEU Pension Trust

Fiducie du régime  
de retraite du SEFPO



Annual Financial Report to Plan Members and Pensioners 1999

# Reporting to You

There are a number of ways you – the members and pensioners of the OPSEU Pension Plan – can gauge the strength of your Plan and the security of your pension benefits. By any measure, 1999 was a good year.

- > In September 1999, the Plan's actuarial funding valuation for the years 1996–1998 identified gains in the Plan of \$1.334 billion. The gains represent the amount that the Plan's assets exceed its anticipated liabilities, including the future cost of members' and pensioners' benefits.
- > In December, half of the gains – or \$667 million – was used to improve pension benefits, enhance early retirement options and give members a three-year contribution reduction. The other \$667 million was used to pay down 81% of the Plan's unfunded liability.
- > In 1999, OPTrust's investments earned \$970 million, a rate of return of 11.4%. At year-end, the Plan's net assets supporting your pension benefits totaled \$9.6 billion, up almost \$1 billion from 1998.

These results continued OPTrust's strong performance over the five years since the Plan was launched under the joint sponsorship of OPSEU and the Province of Ontario. Since the Plan's start up, the OPSEU Pension Plan Trust Fund has more than doubled in size.

OPTrust exists to serve you by ensuring a lifetime income for you in your retirement. We aim to:

- > **provide you with the finest service and communications**
- > **generate a return on investment that supports the pension promise**
- > **give you a real voice, through joint trusteeship, in how your pension plan is administered.**

This booklet provides a snapshot of our work on your behalf in 1999. It's one of the many ways we are accountable to you.



This report summarizes certain provisions of the OPSEU Pension Plan. Please note that this report does not create any rights to benefits not provided for in the actual terms of the Plan. In the event of any conflict or omission, the legal requirements of the OPSEU Pension Plan will govern in all cases.

## MAJOR ACCOMPLISHMENTS IN 1999

**Achieving** a solid investment return during a volatile market

**Increasing** pension benefits through actuarial gains in the Plan and negotiated improvements

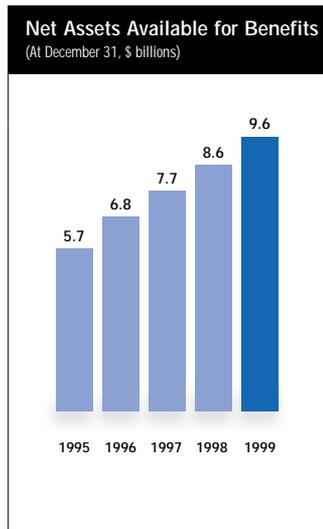
**Lowering** member contributions for a three-year period

**Improving** the Plan's funded status by applying actuarial gains to substantially reduce the amount owed to the Plan by the Government of Ontario

**Focusing** services on the changing needs of members and pensioners.

## Financial Highlights

(At December 31, \$ millions)	1999	1998
Net assets available for benefits	\$ 9,571	\$ 8,631
Actuarial value of net assets	8,643	7,705
Future cost of pension benefits	7,242	7,201
Surplus	1,401	504
Rate of return on investments	11.4%	11.3%



# Working for You: Five Years of Joint Trusteeship

## Message from the Chair and Vice-Chair

In the spring of 1994, members of the Ontario Public Service Employees Union (OPSEU) took a big step. You voted to take joint responsibility – along with the Government of Ontario – for the management of your pension fund.

Your decision had some important results. It led to the creation of the OPSEU Pension Plan. It gave you a say in how your fund is invested and administered, through a Board of Trustees appointed equally by OPSEU and the Government of Ontario. And it resulted in the launch of the OPSEU Pension Trust on January 1, 1995, to manage the Plan on your behalf.

As our fifth full year of operation, 1999 had special importance. OPTrust is now firmly established as one of Canada's leading pension plans. Meanwhile, joint trusteeship paid off handsomely in 1999. Over the year, OPTrust achieved strong investment returns, improved pension benefits, lowered member contributions and dramatically reduced the province's obligation for the Plan's initial unfunded liability.

These results show that joint trusteeship works – for OPTrust's members, pensioners and sponsors and the people of Ontario.

A key milestone in 1999 was the release of the Plan's actuarial funding valuation for the years 1996 to 1998, which confirmed gains in the Plan of \$1.334 billion.

Under the agreements establishing the Plan, half of the gains – or \$667 million – was to be used to benefit members and pensioners. The result? A three-year contribution reduction for members; enhanced temporary early retirement options for those who qualify; and a bigger pension, either now or in the future, for every OPTrust pensioner and member.

The Government of Ontario's share of the gains was used to reduce the Plan's unfunded liability from \$820 million to \$153 million. The liability is now scheduled to be eliminated no later than 2003 – 26 years earlier than originally anticipated.



In 1999, the Plan continued to experience strong investment returns. At the same time, our investment strategy focused on long-term growth to ensure the security of your pension benefits. Over our five years of operation, the Fund has generated an average rate of return of 15.4% – among the top performing pension plans in Canada.

Members and pensioners saw other benefit improvements in 1999. Late in the year, OPSEU and the Government of Ontario approved two amendments to the Plan. The first opened up early retirement and bridging options for members who are laid off, while the second clarified the pension rights of members involved in certain divestments. These changes were in addition to the benefit improvements funded by the Plan's gains.

Meanwhile, OPTrust responded to your changing needs by:

- > providing pension information geared specifically to members affected by ongoing public sector restructuring
- > investing in a new computer system to manage pension data more efficiently, and process retirements, terminations and other important changes more quickly
- > conducting a targeted survey to learn more about the pension information you need – and how you want to receive it.

It is important to note that after five exceptional years, market returns may begin to move closer to the Plan's long-term actuarial projection of 7.5% in the coming period. Whatever the economic conditions, our focus is on maintaining a diversified portfolio to achieve long-term growth and manage risk. As Trustees, we are responsible for the prudent management of your pension fund.

Members and pensioners can look back on OPTrust's first five years with satisfaction and look to the future with confidence. OPTrust has the governance and accountability framework that delivers for you.

Len Hupet,  
Chair

Stanley F. Sanderson,  
Vice-Chair

### Reporting to you

**Len Hupet** (centre) is Chair of the Board of Trustees. **Stan Sanderson** is the Board's Vice-Chair. **Heather Gavin** chairs the Board's Audit Committee.



# Improving Benefits and Services

The public services OPTrust members provide are part of the fabric of Ontarians' lives. Working in health care, education and social services, you strengthen communities across the province. You protect our environment and support our dynamic economy. You keep our highways, workplaces and communities safe. You have earned our respect and our thanks.

As OPTrust members and pensioners, you have earned something else: the right to a secure pension in your retirement. The money you and your employers contribute to the Plan is an investment in the future. In retirement, your pension allows you to take on new challenges, spend more time with loved-ones, or simply take life a bit easier. Whatever your choices, an OPTrust pension is the cornerstone of your retirement income.

Through careful management of the Plan's investments, OPTrust provides you with a pension you can count on – and one that will keep pace with inflation.

**At retirement, your OPTrust pension is based on the following formula:**

- > **2% of your average salary** (typically the average of the highest consecutive five years of annual salary rate)
- > **times your credit** (years and months of credited service in the Plan)
- > **less CPP integration** (a reduction at age 65).

## OPTrust DELIVERS

Joint trusteeship meant tangible rewards for OPTrust members and pensioners in 1999. On December 1, significant improvements went into effect, funded by the members' 50% share of the Plan's \$1.334 billion gains.

As joint sponsor of the Plan, OPSEU selected the improvements after analyzing survey responses from more than 12,000 plan members and pensioners. Together, the changes will benefit every member and pensioner. They include:

### Time-limited improvements

- > **reducing members' contributions by 4% of their salaries for three years**
- > **extending Factor 80 to March 31, 2002**
- > **improving the pension reduction formula – and increasing pensions – for those who take an immediate reduced pension at age 55 or older before December 1, 2004.**

### Permanent improvements

- > **increasing the plan-funded survivor benefit from 50% to 60% of the member's CPP-integrated pension**
- > **increasing OPTrust pensions at age 65 by lowering the reduction for Canada Pension Plan (CPP) integration**
- > **eliminating the CPP reduction prior to age 65 for OPTrust pensioners who receive CPP disability benefits.**

OPSEU also set aside \$31 million in a stabilization fund to protect members against future contribution increases.

## SUPPORTING MEMBERS IN A PERIOD OF CHANGE

In a time of change, people need accurate information to make sound decisions and to feel more sure about their futures. That is why OPTrust staff made a special effort to respond to the needs of members facing workplace changes.

In 1999, OPTrust staff made almost 40 workplace presentations to as many as 1,500 members involved in divestments, as well as dozens of presentations in other workplaces. Meeting with members allowed us to explain the special rules that govern how their pensions are affected, and answer their questions directly. Meanwhile, OPTrust monitored potential divestments closely, to safeguard the rights of members and the integrity of the Plan, and to remind employers of their pension obligations.

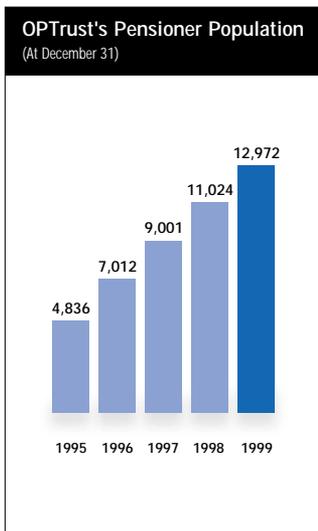
Members affected by workplace changes also gained access to additional pension options through two amendments to the Plan approved by the sponsors in December.

The first of these amendments increased the likelihood that members who receive a layoff notice may qualify for an unreduced early retirement pension. Under the "Factor 80 extension" members whose age plus credit total 80 or more can qualify for early retirement should they receive a layoff notice before March 31, 2002. The amendment also allows laid-off members to use special leaves of absence to "bridge" to an unreduced early retirement, provided their collective agreements include the use of leaves for this purpose.

The second amendment clarified the pension rights of members affected by divestments in provincial psychiatric hospitals and the property assessment division of the Ministry of Finance. Under specific conditions, OPSEU may negotiate with the new employer for the members to remain active in the OPSEU Pension Plan.

**Helen Lam** works as an administrative assistant at the Ontario Human Rights Commission in Toronto. Like most OPTrust members, Helen is a member of the Ontario Public Service Employees Union (OPSEU). With the extension of Factor 80 to March 31, 2002, Helen will be able to take early retirement with an unreduced pension in September 2000.

I was so happy when I heard that Factor 80 had been extended. After working all these years, it's great to have this choice. The fact that I'll still have health and dental coverage when I retire is important to me, especially since I still have kids in school. I've saved a little in RRSPs, but my pension will be most of my retirement income. I'm thinking of taking some courses, and maybe some skating lessons. I'm looking forward to the chance to relax.



## RESPONDING TO YOUR VIEWS

As part of our focus on service, OPTrust values your input. In 1999, a survey of 400 members and pensioners told us how we are doing, and where we can improve.

The survey revealed that:

- > **you are satisfied with OPTrust's newsletters and other printed material, but want more concrete information about your pension options**
- > **you particularly value direct, personal assistance, including OPTrust's toll-free telephone service, which connects you directly to OPTrust staff**
- > **the more you know about your pensions, the more satisfied you are with OPTrust**
- > **three out of four members have Internet access, suggesting the Internet's potential for communicating with members.**

This kind of feedback will help to shape the way we serve members and pensioners.

In 1999, our newsletters gave you detailed information on the plan improvements.

We also launched a new information package to welcome the 2,000 members who join the Plan each year. In the coming year we plan to increase our program of workplace presentations to give you more face-to-face contact with OPTrust staff. Meanwhile, we are exploring ways to give you secure access to detailed pension information over the Internet.

## IMPROVING SERVICE

Efficient systems for storing, accessing and updating pension information are crucial to managing the Plan effectively and providing accurate information and timely services.

Over the last year, OPTrust began developing and implementing a new computer system to manage and update pension data. In late 1999, the new system allowed OPTrust staff to incorporate the gains-related pension improvements in less than one month, giving retiring and terminating members immediate access to the Plan's enhanced benefits.

## OPTrust's CHANGING MEMBERSHIP

OPTrust's total membership declined by 1,408 over 1999, while the number of pensioners rose by 1,948. These changes continue trends from previous years as the Plan matures. They also reflect the availability of Factor 80 and other early retirement options, and ongoing changes in public sector employment in Ontario.

(At December 31)	1999	1998
<b>Total members</b>	<b>51,111</b>	<b>52,519</b>
Number of new members enrolled	2,617	2,038
Number of members terminating or retiring	4,025	4,586
Net decrease in membership	<b>(1,408)</b>	<b>(2,548)</b>
<b>Total pensioners</b>	<b>12,972</b>	<b>11,024</b>
<b>Total Members and Pensioners</b>	<b>64,083</b>	<b>63,543</b>

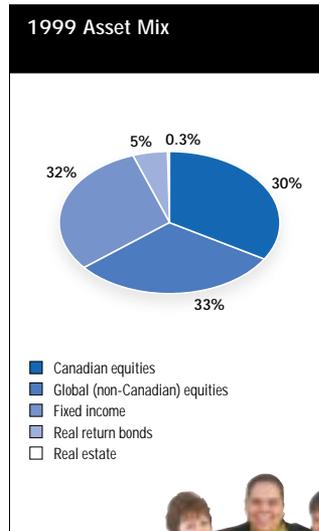
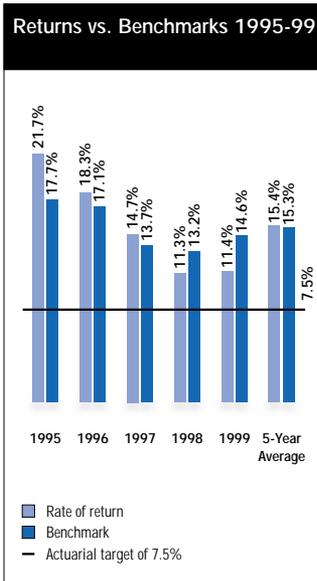
# Investing in Your Future

OPTrust's job is to provide a secure, lifetime pension in your retirement years. To pay for your pension benefits, the Plan needs to achieve a long-term rate of investment return of 7.5%. Over the five years since OPTrust was launched, we have consistently exceeded this actuarial target.

As a result, gains realized in 1996–1998 were available in 1999 to pay for increased benefits, reduce members' contributions, improve the Plan's funded status, and reduce the Government of Ontario's long-term funding obligations to the Plan.

OPTrust assesses the performance of the Fund's investments – and the effectiveness of our investment managers – against market-based indexes or *benchmarks*.

In 1999, the Plan realized an investment return of 11.4%, compared to our investment benchmark of 14.6%. The return reflected strong performance by our Canadian and global equities that was partly offset by lower returns on Canadian fixed income and global equities that was partly offset by lower returns on Canadian fixed income investments. In OPTrust's first five years, we have realized an average return of 15.4%, just above our five-year-average investment benchmark of 15.3%.



## A BALANCED INVESTMENT FUND

OPTrust's asset mix policy sets ranges for the proportion of each investment type in the Plan's portfolio. The policy aims to ensure a reasonable return on investment while keeping risk at appropriate levels. Investments include both domestic and international equities, fixed income instruments, real return bonds and real estate.

### 1999 Investments, Returns and Benchmarks

(At December 31)	Investments (\$ millions)	OPTrust's Return (%)	Benchmark Return (%)
Canadian equities	2,876	20.1	31.7
Global equities	3,146	20.9	17.5
Real estate	32	11.3	10.1
Real return bonds	442	8.2	8.0
Fixed income	3,045	(2.0)	(1.1)
<b>Fund total</b>	<b>9,541</b>	<b>11.4</b>	<b>14.6</b>

## MANAGING INVESTMENT AND CONTROLLING RISK

OPTrust uses a variety of investment strategies and styles. "Active" investment strategies focus on markets, sectors or individual stocks that represent good value or the potential for growth. "Quantitative" strategies focus on maintaining a portfolio that mirrors the index for a given market and matches its rate of return.

OPTrust's *Statement of Investment Policies and Goals* sets out policies used to reduce investment risks. Risk management strategies include:

- > **diversifying assets**
- > **ensuring high credit standards**
- > **tracking investment results**
- > **monitoring managers' compliance with OPTrust's policies.**



OPTrust's assets are held by our independent custodian, Royal Trust. In 1999, the Trustees retained the following external managers to invest on behalf of the Fund:

### Investment Managers and Strategies

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

**Claudio Moro** is a senior PC specialist at the Liquor Control Board of Ontario, where he has worked for almost 13 years. Claudio is a member of the Ontario Liquor Boards Employees' Union, one of two non-OPSEU bargaining units in the Plan. While retirement is still a long way off, it is something that Claudio is looking forward to – and planning for.

I'm still young, but I keep track of my pension. My wife and I have two kids and a mortgage, so we've only put a little aside in an RRSP. That's why we're so glad to see how healthy the Plan is. Lowering our contributions for three years was key for me. The extra money will help with the registered education savings plan we've opened for my sons. The Plan has members at different stages of their lives, so I thought it was fair to make improvements that will help everyone.



# Ensuring the Security of Your Pension

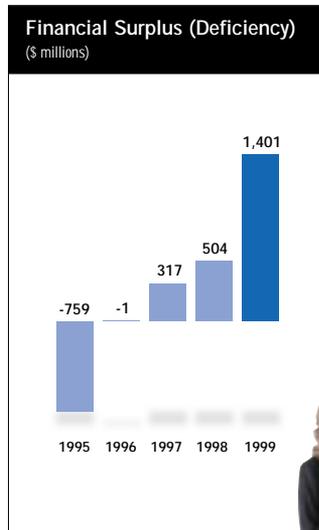
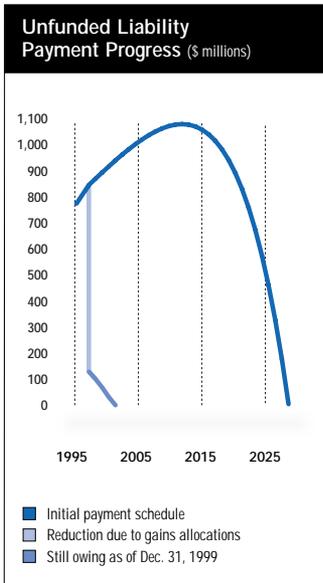
## FUNDING VALUATION

The OPSEU Pension Plan's *actuarial funding valuation* for the years 1996–1998, released in 1999, was an important measure of the Plan's strength. A product of strong investment earnings, the gains of \$1.334 billion represent how much the Plan's assets exceed the future cost of members' and pensioners' benefits. The next valuation report, covering the years 1999–2001, will be completed in early 2002.

The members' and pensioners' \$667 million share of the gains from 1996–1998 was used to improve pension benefits, enhance early retirement options and reduce members' contributions, at the discretion of OPSEU as one of the Plan's sponsors.

## UNFUNDED LIABILITY PAYMENTS

The Government of Ontario was required to use its share of the gains to pay down the Plan's unfunded liability. Together with the government's regular payments, the gains have reduced the amount the Province owes to the Plan from \$820 million to \$127 million at year-end. By continuing to make scheduled monthly payments, the government is expected to eliminate this funding deficit by July 2003 – 26 years earlier than would have been possible without the gains. As a result, the Plan is in a strong position to weather changes in economic conditions, and ensure the security of your pension benefits.



## FINANCIAL STATEMENTS

The Plan's 1999 financial statements show an accounting surplus of \$1.401 billion, compared to \$504 million in 1998. The surplus equals the difference between the actuarial value of the Plan's net assets and the cost of members' and pensioners' accrued benefits.

The financial statements are based on different actuarial assumptions than the three-year funding valuation. As a result, the surplus does not generate a gain to be shared between the members and pensioners and the Government of Ontario. Still, the surplus is another indication of the Plan's continued strong growth – and a positive sign for OPTrust's next funding valuation for the years 1999–2001.

## OPERATIONAL RISK

OPTrust monitors and takes steps to control risk in all of our activities. We manage operational risk by establishing a range of internal safeguards. These include financial controls, segregated duties, data back-up systems, adequate insurance coverage, staff training and contingency plans to maintain services in the event of potential disruptions.

Year 2000 issues were a particular concern for computerized operations. OPTrust identified all areas of potential exposure and took prompt action. As a result, OPTrust experienced no Year 2000-related problems.

OPTrust has compared its policies and practices against those set by the Pension Investment Association of Canada (PIAC), an independent group of large pension plan investors. OPTrust found that it met or exceeded even the most detailed standards set by this respected organization.

## ASSET/LIABILITY FORECAST

As part of its responsibility to members and pensioners, the Board of Trustees regularly reviews the Plan's projections of future earnings and liabilities. Testing these assumptions allows the Board to make any adjustments that are needed to safeguard the stability and growth of the Fund under various economic scenarios. In 2000, OPTrust will again review the Plan's asset mix to ensure that it is appropriately diversified, and reflects the best possible balance between growth and risk.

**Elizabeth Grant** started working at the Ministry of Housing in 1984. After a series of major health problems, she retired with a pension from OPTrust and a disability pension from CPP in 1996. The permanent improvements to the Plan mean that OPTrust pensions are no longer reduced to offset CPP disability payments. As a result, Elizabeth's pension increased by more than \$150 a month.

The increase in my pension makes such a big difference. I've been able to get my own telephone, and now I can afford to call my daughters long distance. I've also put off some dental work because of the deductible, but now I can go ahead and get it done. My medications cost up to \$1,000 a month, so my health benefits are particularly important. And even though my pension will go down when I turn 65, it's reassuring to know it's protected against inflation.



## Statement of Changes in Net Assets Available for Benefits

(\$ thousands)	1999	1998
Net investment income	\$ 969,932	\$ 867,396
Contributions	335,131	309,854
<b>Increase in assets</b>	<b>1,305,063</b>	<b>1,177,250</b>
Pensions payments	213,134	177,086
Refunds and commuted value transfers	64,081	89,772
Transfers to other plans	70,546	3,505
Operating expenses	16,985	16,916
<b>Decrease in assets</b>	<b>364,746</b>	<b>287,279</b>
<b>Net increase for the year</b>	<b>940,317</b>	<b>889,971</b>
<b>Net assets at beginning of year</b>	<b>8,630,513</b>	<b>7,740,542</b>
<b>Net assets at year-end</b>	<b>\$ 9,570,830</b>	<b>\$ 8,630,513</b>

## BOARD OF TRUSTEES

(At December 31, 1999)

The OPSEU Pension Plan is jointly sponsored by the Government of Ontario and the Ontario Public Service Employees Union (OPSEU). Each sponsor nominates five trustees who serve in a voluntary capacity. The trustees work together to serve the interests of the Plan's members and pensioners.

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

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, CFA\*\*  
Senior Consultant  
Frank Russell Canada

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

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

Paul Scott\*\*  
Assistant Deputy Minister – Year 2000 Initiative  
Management Board Secretariat

Paul Sharkey\*  
Court Interpreter/Translator  
Ministry of the Attorney General



On these two pages are just a few of the OPTrust staff who work to serve you. Elsewhere in this report are photographs of some of OPTrust's 64,083 members and pensioners.

OPTrust thanks the following Trustees, who left the Board in 1999:

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

Ingrid Peters, LL.B.\*\*  
Vice-President and General Counsel  
Ontario Casino Corporation

Grant MacGillivray\*  
Agent Conduct Officer  
Financial Services Commission of Ontario

\* OPSEU Appointee

\*\* Government of Ontario Appointee

**PROFESSIONAL ADVISORS TO THE TRUSTEES**

**Actuary**  
Buck Consultants

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

**Auditors**  
PricewaterhouseCoopers LLP

**Legal Counsel**  
Koskie Minsky

**MANAGEMENT TEAM**

(At December 31, 1999)

Colleen Parrish, LL.B.  
Plan Manager

Graeme Isdale  
Director, Information Technology

Roger Phillips  
Investment Coordinator

Dan McArthur  
Director, Policy and Trustee Support

Charlie Eigl, CA  
Treasurer and Director, Finance and  
Administration

To September 1999:  
Silvano Trinca, CA  
Director, Member and Pensioner Services





### Looking for more information?

OPTrust's full-size annual report, including our audited financial statements and a schedule of investments, is available in both English and French. To order a copy, please call or write.

### HOW TO REACH OPTrust

#### 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 Canada)  
(416) 681-6398 (Toronto)

#### E-mail

Email@optrust.com

#### Web site

www.optrust.com



OPSEU Pension Trust

Fiducie du régime  
de retraite du SEFPO

### OPTrust 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*
- > *Your pension and your retirement* (available in May 2000)
- > *OPTions* newsletter for plan members
- > *The Pension Connection* newsletter for pensioners

To order any OPTrust publication, please call our toll-free general information line.

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ISSN 1488-0458

Fifth Anniversary  
Cinquième anniversaire  
**1995-2000**

