Want to find out more?

OPTrust’s full annual report, including our audited financial statements, is available online at www.optrust.com, along with a list of OPTrust’s investments. To order a print copy of the annual report, please contact us.
With assets under management of $10.5 billion, the OPSEU Pension Trust (OPTrust) manages one of Canada’s largest pension funds and administers the OPSEU Pension Plan, a defined benefit plan covering almost 74,000 members and pensioners.

In 2004, OPTrust:

Achieved an investment return of 11.7%, exceeding both the long-term funding target and market benchmarks

Filed an actuarial valuation with regulatory authorities that confirmed a funding deficit of $255 million resulting from investment losses in 2001 and 2002

Used funds set aside from the gains of earlier years to stabilize member and employer contribution rates at normal levels, rather than increasing rates to cover the funding deficit

Initiated a major multi-year expansion of the Plan’s portfolio of real estate investments.

### Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>Financial statement valuation</th>
<th>Actuarial valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>At December 31 ($ millions)</td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Current cost of future pensions</td>
<td>$9,525</td>
<td>$8,865</td>
</tr>
<tr>
<td>Actuarial smoothing adjustment</td>
<td>(30)</td>
<td>(704)</td>
</tr>
<tr>
<td>Rate stabilization funds</td>
<td>533</td>
<td>510</td>
</tr>
<tr>
<td>Unallocated surplus/(deficit)</td>
<td>446</td>
<td>973</td>
</tr>
<tr>
<td>Net assets available for benefits</td>
<td>$10,474</td>
<td>$9,644</td>
</tr>
</tbody>
</table>

### Net Assets Available for Benefits

The Plan’s net assets increased to $10.5 billion in 2004, driven by investment gains of $1.1 billion.

### Returns vs. Benchmarks

OPTrust’s investment portfolio has outperformed the Plan’s market-based benchmark in eight out of the past 10 years. The 10-year annualized return exceeds both our funding target and the benchmark return.
Ten years ago, the OPSEU Pension Trust was created to achieve three very important long-term objectives for the members of the Plan:

- To generate a long-term rate of return on investments that supports our pension promise
- To deliver the finest service and communications to our members and pensioners, and
- To ensure that members and pensioners have a real voice in their Plan, through joint trusteeship.

Based on the assets that had previously been set aside for member and retiree pensions, the OPSEU Pension Plan began in 1995 with a significant deficit. However, because of a number of factors, including strong investment returns and special payments from the Government of Ontario, that deficit – which was expected to take three decades to eliminate – was extinguished in just six years.

The Plan’s strong position during much of our first decade of existence allowed OPSEU to use the members’ share of the funding gains to support significant temporary benefits such as early retirement with unreduced pensions and an extended period of lower contributions for members. It also resulted in permanent improvements in important areas such as increased pension payments after age 65 and better survivor pension benefits.

Beyond its excellent financial performance, the Plan has also achieved other goals that we can reflect on with pride on our 10th anniversary:

- Service provided to our membership has been steadily enhanced to meet the needs of members and pensioners and has been rated very highly by both groups
- OPTrust has developed skilled staff and a strong infrastructure that has enabled us to maintain and improve our service levels during periods of significant change
- The Plan has played a pioneering role in important issues such as the provision of pension benefits for same-sex couples and shareholder activism.

Much has been achieved during our first decade. OPTrust has developed into a mature organization with skilled and experienced people, a sound and sophisticated investment program, a rigorous system of internal controls, a strong dedication to good governance and a lasting commitment to excellence in member and pensioner service.

However, we also recognize that the relationship between a pension plan and its contributors – past, present and future – is by its very nature an enduring one, potentially lasting 50 years or more. Our first decade is therefore simply the beginning of a long-term commitment – a commitment to continue working to keep the promise of good investment returns within acceptable risk parameters, excellent service and communication and a real voice in the administration of the OPSEU Pension Plan.

Investment Performance in 2004
The most important factor enabling the Plan to keep our pension promise is the long-term performance of the investments purchased with the contributions made by members and employers. So it’s very gratifying that, following two years of investment losses in 2001 and 2002, we have now experienced two back-to-back years of strong investment gains.

In 2004, OPTrust achieved an investment return of 11.7%, exceeding our long-term target of 7.5% for the seventh time in our first decade of operation. This strong performance – following a 17.3% return in 2003 – increased total assets available for benefits to $10.5 billion.

Average annual returns for our first decade rose to 9.9%, surpassing both our weighted market benchmark and the long-term funding target.
Actuarial Valuation Confirms Funding Loss
As part of an enhanced liability management strategy adopted by your Board of Trustees in 2003, OPTrust’s independent actuaries conducted a funding valuation of the Plan as of December 31, 2003.

Pension regulations in Ontario require an actuarial valuation to be carried out at least once every three years to ensure that sufficient assets are being set aside to pay for future pension benefits. Since a valuation had been performed in 2001, the next one would not normally have been required until the end of 2004. The purpose of moving up the filing date of the valuation was to more actively manage investment losses that the Plan – along with many other investors – incurred in 2001 and 2002.

As expected, the funding valuation showed a net loss of $255 million for the years 2002 and 2003. The main factor in this deficit was the investment losses in 2001 and 2002.

Since OPSEU and the Government of Ontario jointly sponsor the OPSEU Pension Plan, both employers and members are equally responsible for making up any funding deficits – just as both were able to benefit equally from funding gains. A funding deficit would normally trigger an immediate increase in member and employer contributions above the normal rate.

However, both OPSEU and the Government of Ontario prudently set aside a part of the funding gains that occurred between 1999 and 2001 in separate contribution rate stabilization funds. Each sponsor has decided to use a portion of these funds to cover the annual unfunded liability payments, beginning in 2004. As a result, member and employer contributions will not rise above the normal rate until at least the Plan’s next required funding valuation, which must be filed no later than 2007.

Trustees, staff and actuaries of the Plan will continue to monitor the funding health of the Plan very closely, pursuing a multi-year liability management strategy.

Benefits and Contribution Rates
As a result of the funding deficit, two temporary benefit enhancements – Factor 80 and Points Off – that were paid for from past funding gains are scheduled to end in 2005. Factor 80, which allowed eligible members to retire early with an unreduced pension, ended on March 31, 2005. Points Off, which provides eligible members 55 and older with a smaller reduction if they take early reduced retirement other than under Factor 80, will end on December 31, 2005.

The strong investment climate of the mid-to-late 1990s also enabled the Plan to pay for a temporary reduction in the contributions required from members. Beginning in December 1999, contribution rates were reduced by more than half. Annual increases of 1% in 2002, 2003 and 2004, and on January 1, 2005, brought rates back to normal levels at the beginning of 2005.

Employers have paid contributions to the Plan at normal rates throughout this period.

These temporary rate reductions have yielded significant savings for members. Between December 1999 and January 1, 2005, an average member earning $45,000 a year would have saved nearly $7,700. However, the confirmed funding deficit reinforces the wisdom of the decision by OPSEU to return contributions to their normal rate. This will help preserve the member stabilization funds and thus reduce the risk of possible future increases in contribution rates for members.

Service Excellence
An important goal of OPTrust is to provide excellent service and communication for members and pensioners. During 2004, several important results were achieved:

- The number of outstanding open cases was reduced by more than 50%, and the number of cases overdue for more than 30 days was reduced from 44% of total cases to less than 10%
- New, secure, personalized online services were made available for members and pensioners. For the first time in 2004, members were able to check and print their pension statement online, weeks ahead of when they would have received a paper copy. Pensioners were able to obtain their T4A taxation slips and make changes to their banking information online.

Looking ahead, OPTrust is in a strong position to ensure the security of your pension now and into the future, and to continue delivering service that meets your changing needs.

Deborah Stark
Chair
David Rapaport
Vice-Chair
2004 highlights

• Investment return of 11.7% exceeded the Plan’s long-term actuarial funding target of 7.5% and the benchmark return of 11.5%

• During the first 10 years of operation, OPTrust has achieved an average annual return of 9.9%, exceeding both the long-term target of 7.5% and the benchmark returns of 8.9%

2004 Results

In 2004, returns from international and domestic equity markets continued to be very positive, although they were not as strong as the previous year. Returns on Canadian bonds were also relatively strong.

The Plan’s overall investment return in 2004 was 11.7%, compared with 17.3% in 2003. Net investment income totalled $1.1 billion, compared with $1.4 billion the previous year.

The Plan’s weighted benchmark return was 11.5% in 2004. The above-benchmark performance of the Plan’s investments resulted from the strong performance of our foreign equity and real estate portfolios, which more than offset below-benchmark returns in the Canadian equity and fixed income portfolios.

Investment Strategy Evolution

During 2004, the implementation of major changes to the OPTrust investment portfolio continued, based on a restructuring plan approved by the Board of Trustees in 2003.

Major initiatives during 2004 included increasing our real estate holdings, changing our Canadian equity management structure and modifying our fixed income strategy to better match our liabilities.

• Real Estate – total investments in real estate rose to $220 million by the end of the year, from $40 million in 2003. During the next several years, we plan to increase real estate investments to 9.5% of Plan assets, at which time the total portfolio will likely exceed $1 billion.

• Canadian Equity Management – significant changes were made to the allocation between active and passive strategies, with the actively managed part of the portfolio increasing from 50% to 75%. Changes were also made to the investment managers retained to implement the strategies.
2004 highlights

- An actuarial valuation submitted to regulatory authorities in 2004 confirmed a funding deficit of $255 million
- Funds set aside from previous gains are being used to stabilize member contribution rates at normal levels until at least 2007
- Temporary benefit improvements such as unreduced early retirements paid for by past funding gains are ending

Funding Valuation Moved Up by One Year

As a registered pension plan, OPTrust is legally required to complete a funding valuation that is filed with Ontario regulatory authorities at least once every three years. However, in actual practice the Plan reviews its valuation position every year. As part of a comprehensive liability management strategy adopted by the Board of Trustees in 2003, OPTrust decided to carry out its most recent valuation after just two years to better manage the impact of investment losses that the Plan, along with many other major investors, experienced in 2001 and 2002.

The valuation, completed for the two consecutive years ending December 31, 2003, was filed with the Financial Services Commission of Ontario in September 2004. The valuation indicated an actuarial loss of $255 million for the years 2002 and 2003.

Heather Gavin, member of the Board of Trustees and chair of the Audit Committee, has been involved with OPTrust not just since the beginning but before the beginning, having acted as OPSEU’s lead negotiator in the creation of the Plan. “For me, the best thing about the establishment of OPTrust has been the ability of the members and pensioners to have a real say in their retirement future – in fact, in the whole way the Plan is run.”

Stabilization Funds to Be Used

Since OPSEU and the Government of Ontario jointly sponsor the OPSEU Pension Plan, both members and employers are equally responsible for making up any funding deficits (as well as sharing in the benefits of funding gains). A funding deficit would therefore normally require an immediate increase in member and employer contribution rates.

However, part of the funding gains that resulted from the strong investment performance of the Plan in 1999 and 2000 were set aside by both OPSEU and the Government of Ontario to create stabilization funds that could help offset any future funding deficits. In 2004, both sponsors used a portion of their stabilization funds to pay an additional $14 million each into the Plan towards their current share of the funding losses identified in the 2003 actuarial valuation.

These $14-million payments from the stabilization funds will continue in each of 2005 and 2006, at which time another actuarial valuation is expected to be carried out. As a result, there will not be an increase in member contribution rates before 2007.

<table>
<thead>
<tr>
<th>Sources of gains and losses</th>
<th>$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment loss</td>
<td>(1,073)</td>
</tr>
<tr>
<td>Change in asset valuation method</td>
<td>710</td>
</tr>
<tr>
<td>Other economic experience gain</td>
<td>85</td>
</tr>
<tr>
<td>Demographic experience loss</td>
<td>(13)</td>
</tr>
<tr>
<td>Assumption changes</td>
<td>87</td>
</tr>
<tr>
<td>Other losses</td>
<td>(51)</td>
</tr>
<tr>
<td>Net losses for 2002 and 2003</td>
<td>(255)</td>
</tr>
</tbody>
</table>

Heather Gavin
Plan Trustee
Proactive Communications
OPTrust continues to take the initiative in contacting members and potential members to ensure that they fully understand the pension options available to them – particularly any pension rights that would otherwise expire.

We also continued to make contact with contract and unclassified employees to ensure they understand the benefits of belonging to a defined benefit pension plan where the employer makes a matching contribution on their behalf. Existing members benefit from this initiative because increased membership spreads the relatively high fixed costs of the computer systems and other infrastructure required to administer a pension plan over a larger base of members.

Personalized Online Services Expanded
In response to preferences identified in surveys of members and pensioners, OPTrust introduced a new package of online services during the year. The services are available to both members and pensioners through a secure, password-protected section of the OPTrust website (www.optrust.com).

Enhancement of online services is being made available in phases. The first phase of the project, launched in late 2003, enabled registered users to:

- Sign up for the online services
- Choose a confidential password
- Check and update beneficiary information
- Update address, phone and e-mail contact information
- And choose whether they wanted to receive publications by mail or electronically.

Membership Snapshot

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>At December 31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active members</td>
<td>44,243</td>
<td>45,836</td>
</tr>
<tr>
<td>Former members with entitlements in the Plan</td>
<td>1,333</td>
<td>5,181</td>
</tr>
<tr>
<td>Number of new members enrolled</td>
<td>3,917</td>
<td>3,935</td>
</tr>
<tr>
<td>Number of members terminating or retiring</td>
<td>9,358</td>
<td>3,605</td>
</tr>
<tr>
<td>Change in total membership</td>
<td>(5,441)</td>
<td>330</td>
</tr>
<tr>
<td>Pensioners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>20,246</td>
<td>18,977</td>
</tr>
<tr>
<td>Deferred</td>
<td>7,973</td>
<td>4,610</td>
</tr>
<tr>
<td>Total members and pensioners</td>
<td>73,795</td>
<td>74,604</td>
</tr>
</tbody>
</table>

Joanne Harris became OPTrust’s 20,000th pensioner when she retired in September after a 30-year career with the Ministry of Community and Social Services.

“I was very happy to be able to retire early with an unreduced pension because of Factor 80. But the health benefits are also important for pensioners, they can be a big help in meeting expenses for necessities like medication and eyeglasses.”

Membership Services
During 2004, several new features were added:

- Members were able to view their annual pension statement online, weeks before a paper copy was mailed.
- A messaging capability was established within the personalized site that enabled members and pensioners to make service requests and exchange information with OPTrust in a more secure environment than is provided through fax or e-mail, ensuring privacy of information exchanged.

Plans for 2005 include adding the capacity to complete pension buybacks online.

2004 highlights

- Net assets available for benefit payments rose $830 million to $10.5 billion by year-end.
- The Plan’s financial statement unallocated surplus declined by $527 million to $446 million, reflecting deferred losses carried over from 2001 and 2002.
- Special contributions from stabilization funds started to pay down the funding deficiencies in the OPSEU Pension Plan.

Calculating Your Pension

Your OPTrust pension is based on the following formula:

\[ \text{2\% \times Your best five-year average annual salary \times Your years of credit in the Plan \minus CPP integration (a reduction at age 65)} \]

- The OPSEU Pension Plan provides early retirement options, inflation protection and survivor benefits.
- For qualifying members, post-retirement health, dental and life insurance benefits are provided separately by the Government of Ontario.

As a member or retiree of the OPSEU Pension Plan, your “defined benefit” pension offers a unique source of financial security for your retirement years.

If you continue to earn credit, the value of your pension keeps growing. And once you retire, your pension will increase annually for inflation.

The following review of key elements of the financial statements provides an explanation of some of the important measures of the continuing health and soundness of the Plan.

Net Assets Available for Benefits

In 2004, the Plan’s net assets available for benefits rose by $830 million, to $10.5 billion at year-end. The increase resulted from net investment income of $1.1 billion. Partly offsetting that income was benefit payments that exceeded contributions by $217 million during the year, and operating expenses, which declined slightly to $22 million.

Cost of Future Pensions

At year-end 2004, accrued pension benefits were valued at $9,525 million, up $660 million from 2003. Of this increase, $476 million reflects normal growth in the Plan’s accrued benefits. This includes income required on previously earned benefits and benefits earned during 2004, offset by payments to pensioners and terminating members.

Kyle Cachagee’s job as a Conservation Officer, Canine Handler, with the Ministry of Natural Resources takes him and his canine partner Ranger to every part of the province, assisting ministry staff in locating concealed fish and game, speaking to students about the importance of conservation and tracking violators.

“As a person with quite a few years to go before retirement, I honestly don’t think about my pension all that much. But I take a look at each annual statement and it’s good to see that the amount keeps growing automatically with every year of service.”

Kyle Cachagee and Ranger
Member
Actuarial Smoothing

Actuarial smoothing is used in the pension industry to reduce the short-term impact of volatile investment returns by recognizing each year’s gains or losses over a period of several years.

At OPTrust, our smoothing methodology compares our actual return in any given year with the target rate of return we need to make over the long term to keep the pension promise. Any amounts above or below that target are considered gains or losses subject to smoothing. One-fifth of the gain or loss is recognized in current year results, while the balance is carried forward in equal installments for each of the next four years.

At the end of 2004, the Plan’s smoothing adjustment was a deferred loss of $30 million, compared with a deferred loss of $704 million the previous year. The main reasons for the change were the deferral of gains from 2004 and the recognition of losses from 2001 and 2002.

Surplus

The Plan’s financial statement surplus decreased to $979 million at year-end from $1,483 million at the end of 2003. The decrease resulted primarily from the recognition of deferred investment losses incurred in 2001 and 2002. The financial statement surplus is not an actuarial gain for funding purposes and cannot be used by the sponsors to improve benefits or reduce contributions.

Changes in Net Assets

Investment income – Net investment income was $1,069 million in 2004, compared with $1,408 million the previous year. Positive returns in all assets classes – led by Canadian and global equities – contributed to this result.

Contributions – Regular pension contributions from members and employers totalled $256 million in 2004, up from $227 million in 2003, reflecting member contribution rate increases on December 1st of 2003 and 2004.

Pension payments – OPTrust’s pensioner population continued to grow in 2004, reaching 20,246 retirees at year-end. Pension payments increased by 8.5% to $370 million, compared with $341 million in 2003. The Factor 80 early retirement provision, which expired on March 31, 2005, was a significant factor in the rapid growth of OPTrust’s pensioner population.

OPTrust pensions are adjusted annually for inflation. In January 2004, retirees received a pension increase of 3.3% (compared to 1.6% in 2003) under the Plan’s inflation protection provision. The increase for 2005 is 1.7%.

Administrative expenses – Administrative expenses decreased to $22 million in 2004, compared with $23 million in 2003. This reduction reflects the mature structure of the pension administration area and continued efforts to manage costs.

Regular Contributions

Members enjoyed reduced contribution rates for the fifth consecutive year in 2004, although rates returned to normal levels at the beginning of 2005. Employer contributions continued at the normal rate of 8%.

Growth in Pension Payroll

OPTrust’s pension payroll continues to increase rapidly as eligible members elect the Plan’s early retirement options and retirees’ pensions rise annually to reflect inflation.
The OPSEU Pension Trust was established to give members and the Government of Ontario an equal voice in the administration of the OPSEU Pension Plan and the investment of the Plan’s assets through joint trusteeship.

As sponsors, the Government of Ontario and the Ontario Public Service Employees Union (OPSEU) each appoint five Trustees to OPTrust’s Board. The Trustees work together, in a voluntary capacity, to serve the interests of OPTrust’s almost 74,000 members and pensioners.

Members of the Board
(At December 31, 2004)

Deborah Stark, Chair**
Assistant Deputy Minister,
Agriculture and Rural Division
Ministry of Agriculture and Food

David Rapaport, Vice-Chair*
Project Co-ordinator
Ministry of Education

Robert Bellamy**
Former Vice-Chairman (retired)
Burns Fry Limited

Jordan Berger*
Supervisor, Strategic Planning and
Policy Development
Ontario Public Service Employees Union (OPSEU)

Alicia Czekierda*
Secretary, Robarts/Amethyst Schools
Ministry of Education

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

Don Jordan*
Occupational Health and Safety Officer
Ministry of Labour

Ann Marshall**
Former Practice Leader (retired)
James P. Marshall, a Hewitt Company

Tony Ross**
Former Vice-Chair (retired)
Merrill Lynch Canada

Stanley F. Sanderson**
Former Vice-President (retired)
Assante Capital Management Ltd.

One Trustee left the Board in 2004:

Jennifer Brown**
Vice-President, Pensions
Ontario Municipal Employees Retirement System (OMERS)

While this report summarizes certain provisions of the OPSEU Pension Plan, it 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.
Want to find out more?

OPTrust’s full annual report, including our audited financial statements, is available online at www.optrust.com, along with a list of OPTrust’s investments. To order a print copy of the annual report, please contact us.

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ISSN 1204-0458

10 Years of Keeping the Promise

Annual highlights for members and pensioners 2004