



Ontario Pension Board



TAKING ACTION!
2005 REPORT TO
MEMBERS & PENSIONERS

→ Who we are

Ontario Pension Board (OPB) is the administrator of the Public Service Pension Plan (“PSPP” or the “Plan”) – a major defined benefit plan sponsored by the Government of Ontario. Our membership base is made up of certain employees of the provincial government and its agencies, boards and commissions.

With more than \$14 billion in assets, 33,500 active members, 37,275 pensioners and 4,600 deferred members, the PSPP is one of Canada’s largest pension plans. It is also one of the country’s oldest pension plans, dating back to the early 1920s.

→ Our mandate

OPB’s mandate is to:

- protect the long-term health of the Plan;
- invest the Plan’s assets to meet the pension promise; and
- deliver superior, cost-effective service to our stakeholders.



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Protecting the pension promise



Like many defined benefit pension plans, the PSPP faces an increasingly difficult pension environment. To protect the PSPP – and promote a healthy environment for all defined benefit pension plans – OPB is taking action.

In 2005, we launched a number of foundation-building initiatives. These initiatives will ensure we have the culture, people and processes needed to protect the pension promise – now and in the future.

With a solid foundation in place, we're moving ahead with an aggressive, new action plan – a plan that will help us maximize performance and make OPB an even stronger, more responsive organization going forward.

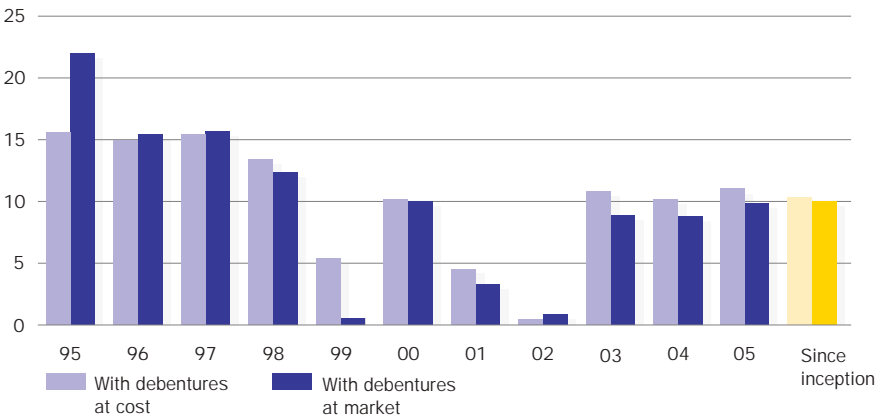
Highlights

ABOUT THE PLAN

The Public Service Pension Plan is a defined benefit pension plan. This means retired members receive a pension benefit based on a pre-set formula. That formula takes into account each member's years of service and earnings history with the Plan. To help fund the pension promise, both members and employers make matching contributions to the Plan.

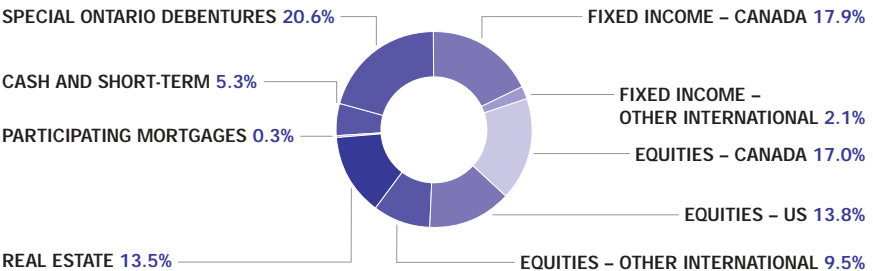
Total Returns

% per annum



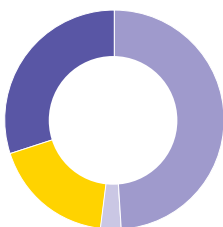
Asset Mix

as at December 31, 2005



Present Value of Pension Benefits*

as at December 31, 2004

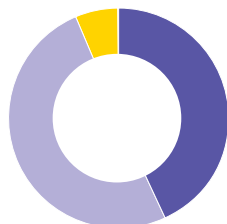


■ PENSIONERS	\$8.4 BILLION	49%
■ DEFERRED MEMBER & OTHER	\$0.5 BILLION	3%
■ MEMBERS – FUTURE SERVICE	\$3.2 BILLION	18%
■ MEMBERS – PAST SERVICE	\$5.2 BILLION	30%
	\$17.3 BILLION	100%

* As reported in the December 31, 2004, actuarial report prepared for management purposes.

Client Profile

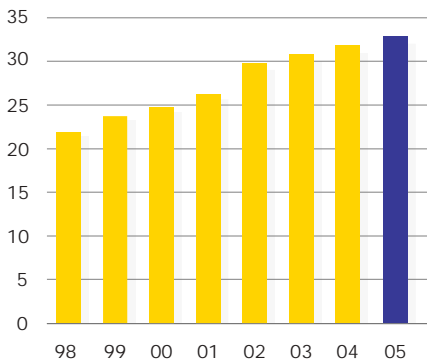
as at December 31, 2005



■ MEMBERS	33,500
■ PENSIONERS	37,275
■ DEFERRED MEMBERS	4,600

Growth in Membership

thousands of persons



Our Service to Members

	2005	2004
Telephone calls	14,231	15,591
Buybacks of service	1,062	2,191
Pension estimates	925	998
Presentations	35	34
Other cases	38,010	40,159

Our Service to Pensioners

	2005	2004
Telephone calls	17,843	19,613
Information changes	16,091	18,026
Other cases	12,575	10,926



Letter from the Chairman and President & CEO

FROM LEFT TO RIGHT

John Richardson, Chairman
Donald D. Weiss, President & CEO

The environment in which OPB operates is undergoing change – some of it positive, some of it negative. Certainly, all of it presents opportunities and poses challenges for the PSPP.

In the face of this change, OPB needs to expand its mandate. It's no longer enough to play a purely administrative role. To protect the long-term viability of the PSPP and enrich the value proposition for our stakeholders, we need to be more proactive. With that in mind, OPB has identified three critical objectives:

1. achieving incremental investment returns;
2. improving service levels by managing better, faster, smarter; and
3. advocating for a healthier pension environment for the PSPP and other defined benefit plans.

To achieve these objectives, OPB's Board of Directors has approved a new tactical business plan. A number of shorter- and longer-term initiatives were launched in 2005 to ensure we have the culture, people, and processes needed to implement that plan going forward. (These initiatives are outlined in Taking action! on page 6.) At the same time, solid investment returns of 11.83% enabled us to reduce the PSPP's funding shortfall by year-end 2005.

Without question, 2005 was a demanding year. However, it was also a productive and rewarding year. We believe we now have the solid foundation necessary to build a stronger, more responsive organization. We want to thank the Board for sharing and supporting the vision of a healthy Plan and a strong OPB. We also want to thank OPB staff for helping to make that vision a reality.

Handwritten signature of John Richardson in blue ink.

John Richardson, Chairman

Handwritten signature of Donald D. Weiss in blue ink.

Donald D. Weiss, President & CEO



Shrinking the shortfall

Last year, we told you that OPB faced a \$749 million funding shortfall. While the shortfall is largely due to economic and demographic factors beyond our control, managing the shortfall is a top priority. In the past year, we've reduced the deficit to an estimated \$600 million (the exact figure will not be known until the December 31, 2005, actuarial valuation has been completed).

While \$600 million is a significant amount, it's also a manageable amount. To put it in perspective, the Plan is about 97% funded. And, it continues to earn strong investment results. In 2005, our real rate of return (i.e., our return after inflation and expenses) was 9.68%, well above the 3.65% real rate of return needed to fund the benefits being earned.

To help protect the pension promise, we are looking to achieve incremental investment returns. It is estimated that even a 0.25% increase in returns will, if sustained over the long term, significantly strengthen the funded position of the Plan.

That said, incremental returns are unlikely to result in a quick resolution of the funding shortfall. The shortfall must be addressed when, as required by law, our December 31, 2005 funding valuation is filed with the regulators. In the meantime, OPB has presented the Plan Sponsor (i.e., the Government of Ontario) with the information and analysis it needs to decide how best to manage the shortfall.

Taking action!



Defined benefit (DB) pension plans, including the PSPP, are under pressure. Various factors – such as a challenging investment market, low interest rates, legislative complexity, shifting demographics and a general lack of understanding about the value of DB plans – are converging to create a complicated and, at times, difficult environment for DB plans.

At OPB, we are committed to overcoming these challenges. To do just that, we're taking action. We're implementing three key strategies for success, outlined on the following pages.



Disciplined and astute investing

1

TO GENERATE INCREMENTAL INVESTMENT RETURNS AND HELP DISCHARGE THE FUNDING SHORTFALL, WE NEED TO BUILD ON OUR DISCIPLINED AND ASTUTE APPROACH TO INVESTING.

→ In 2005...

- We expanded our real estate holdings by 35% – to approximately \$1.9 billion.
- We achieved a return of 11.83%.

→ Going forward...

- In 2006, OPB will appoint a new Senior Vice President, Investments, to replace Robert Kay, who is retiring.
- An asset/liability study will be conducted and the results used to review our strategic asset allocation.
- A study will be conducted to ensure the demographic and economic assumptions used to value the funded position of the Plan reflect our actual experience.



Managing better, faster, smarter

2

TO MEET THE GROWING EXPECTATIONS OF OUR STAKEHOLDERS – AND TO SERVE THEM BETTER – WE NEED TO MANAGE BETTER, FASTER AND SMARTER.



In 2005...

- We introduced a new operating model that will, ultimately, lead to faster, more efficient case handling.
- We began a detailed gap analysis to determine the processes and technology needed to meet client-service demands and productivity goals.



Going forward...

- We will formalize protocols and response standards for handling client-service requests.
- Members, pensioners and participating employers will be surveyed to identify service gaps and refocus service delivery.
- Improvements in technology and business processes will be phased in over the next few years to give OPB employees the tools they need to transform the service experience.



Educating and advocating

3

DEFINED BENEFIT PENSION PLANS, SUCH AS THE PSPP, PROVIDE MEMBERS WITH BOTH A SECURE AND PREDICTABLE BENEFIT. AT OPB, WE BELIEVE WE HAVE A RESPONSIBILITY – AND THE NECESSARY EXPERTISE – TO PROMOTE THE ADVANTAGES OF THE DB MODEL AND CHAMPION A HEALTHY ENVIRONMENT FOR DB PLANS.



In 2005...

- We continued to build trust and credibility among our stakeholders through transparent communications and unbiased counsel.
- We held a series of focus groups with members, pensioners and key stakeholders to determine client perceptions.
- We conducted a number of stakeholder presentations about the value and security of PSPP benefits and the steps being taken to address the challenges the Plan faces.



Going forward...

- We will use focus group results to develop a comprehensive stakeholder relations plan.
- We will continue to play an active role in promoting a healthy pension environment in Canada.



Financial Review

This financial review provides highlights of significant events affecting OPB's financial position in 2005.



INVESTMENTS

OPB achieved an 11.83% return in 2005, compared with 10.18% in 2004. Since its launch in 1990, OPB has produced an average annual rate of return of 10.45%. That translates into a real rate of return (i.e., the rate of return in excess of inflation) well above the 3.65% needed to meet the Plan's benefit obligations (i.e., liabilities).

Asset mix

OPB uses asset mix to minimize risk through investment diversification. The Plan's assets can be grouped into three key categories:

1. **Marketable securities** – The marketable securities portfolio, which is made up of equities, bonds and cash equivalents, represents 65.6% of our investment portfolio. In 2005, the marketable securities portfolio returned 10.75%, compared with 9.0% in 2004.
2. **Special Province of Ontario Debentures** – Special Province of Ontario Debentures (the "Debentures") were issued to OPB by the Province when the PSPP was established as a separately funded plan in 1990. These Debentures, which returned 12.08% on a cost-value basis in 2005, provide a stable cash flow to pay pensions. All of our Debenture holdings will mature over the next nine years.

3. **Real estate and mortgages** – At year-end 2005, OPB’s real estate portfolio had a net value of \$1.9 billion, representing 13.5% of the Fund’s net investments. Real estate continues to be an effective investment for OPB, returning 17.79% in 2005. During the year, OPB made three significant real estate acquisitions, increasing its portfolio of leasable space to 11 million square feet. Operating income from these properties provides an important source of monthly cash flow for OPB.

OPB initially invested \$36.3 million in participating mortgages. These mortgages earn a base interest rate. They are also designed to earn a share of the profits as undeveloped lands held as security are sold or developed.

Improving Plan valuations

For management purposes, the OPB conducted an actuarial valuation as of December 31, 2004. In conjunction with the preparation of this report, we undertook a review of our valuation methodologies. As a result of this review, we have made a number of enhancements designed to improve our reporting transparency and our ability to react quickly to changes in the funded status of the PSPP. We believe these changes will better position us to manage and protect the long-term health of the PSPP.

“OPB USES ASSET MIX TO MINIMIZE RISK THROUGH INVESTMENT DIVERSIFICATION.”



Five-Year Review

<i>(in millions of dollars)</i>	2005	2004	2003	2002	2001
Opening assets	\$13,068.3	\$12,284.0	\$11,489.6	\$11,945.1	\$11,951.2
Investment income ¹	1,502.2	1,210.7	1,201.2	41.8	517.7
Regular contributions ²	340.7	308.5	270.9	135.2	130.2
Transfers from other plans ³	93.5	81.7	108.4	144.5	103.0
	1,936.4	1,600.9	1,580.5	321.5	750.9
Pension payments ⁴	750.1	743.5	728.5	721.2	695.9
Terminations	43.3	55.6	41.2	42.1	45.7
Operating expenses ⁵	19.5	17.5	16.4	13.7	15.4
	812.9	816.6	786.1	777.0	757.0
Closing assets	\$14,191.8	\$13,068.3	\$12,284.0	\$11,489.6	\$11,945.1

Cumulative
Since
Inception

Annual rate of return:

With Special Debentures at cost	11.83%	10.18%	10.77%	0.48%	4.52%	10.45%
With Special Debentures at market	9.61%	8.80%	8.87%	0.85%	3.31%	9.95%

- 1 **Investment income** – Strength in the Canadian equity and real estate markets enabled OPB to boost investment income in 2005. After deducting investment and custodial fees of \$17.0 million (\$15.4 million in 2004), the Fund reported net investment income of \$1.502 billion. Investment fees are the fees paid to investment fund managers. Custodial fees are the fees paid to financial institutions that hold the Fund’s securities for safekeeping.
- 2 **Regular contributions** – Contribution income was higher in 2005, primarily due to a return to normal contribution levels for the entire year. (Contributions levels were reduced during the first two months of 2004.) In addition, there was a 3% increase in Plan membership in 2005. Contribution rates are set by the Plan Sponsor.
- 3 **Transfers from other plans** – The day-to-day business of the Plan includes the transfer of benefits between pension plans, most often between the PSPP and OPSEU Pension Plan. In 2005, there were 865 transfers into the PSPP from the OPSEU Pension Plan and 166 transfers from the PSPP into the OPSEU Pension Plan. The PSPP also allows members to transfer past service in or out of the Plan.
- 4 **Pension payments** – While the number of pensioners declined in 2005, the average pension was higher. This is due, in part, to the 1.7% Escalation Factor (i.e., inflation protection adjustment) granted to retirees on January 1, 2005. OPB now pays \$62.5 million in pensions each month. In 2005, only 45% of this cash came from contributions, while a substantial part came from investment income.
- 5 **Operating expenses** – Operating expenses are the expenses incurred by OPB to operate and manage the PSPP and serve more than 75,000 members and pensioners. Operating expenses for 2005 were \$19.5 million, compared to \$17.5 million in 2004. In addition, the OPB paid \$17.0 million in investment management and custodial fees. This means total expenses for 2005 were \$36.5 million – or 26 cents for every \$100 of assets.



Board of Directors



John E. Richardson

A former Deputy Chairman of London Insurance Group Inc., Chairman, President and CEO of Wellington Insurance Company, President of Great Lakes Power, and partner with Ernst & Young LLP.

APPOINTED TO THE BOARD ON FEBRUARY 6, 2002.



J. Urban Joseph, O.C.

Vice Chairman of Toronto-Dominion Bank from 1992 to 1996. During his career with the bank, which began in 1952, he held a number of positions, including Executive Vice President of the Human Resources Division.

APPOINTED TO THE BOARD ON JULY 1, 2004.



Hugh G. Mackenzie

Currently a principal with Hugh Mackenzie and Associates, an economic consulting firm. Over a 30-year period, he has held a variety of positions in the private sector and all three levels of government, and played a significant role in public policy development.

APPOINTED TO THE BOARD ON DECEMBER 4, 2002.



Debbie L. McKenna

Currently, Chief Administrative Officer for the Ontario Provincial Police Association, where she has worked for more than 25 years as an expert in pension policy and financial management.

APPOINTED TO THE BOARD ON DECEMBER 17, 1997.

LEGEND

1 Appointed September 2005

2 Deceased August 3, 2005



Vincenza Sera

Managing Director of the Financial Institutions Group, Investment Banking for National Bank Financial from 1992 to 2004. Vincenza served as co-head of the Canadian Financial Institutions Group (FIG) practice at Putnam Lovell NBF from 2003 to 2004. She has more than 20 years' experience in investment banking.

APPOINTED TO THE BOARD ON SEPTEMBER 17, 2004.



Mary Tate

Currently, Assistant Deputy Minister of the ServiceOntario Registration Division of the Ministry of Government Services – a position she has held since February 2003. She has more than 20 years' experience in the Ontario Public Service.

APPOINTED TO THE BOARD ON NOVEMBER 20, 2002.



Anthony Wohlfarth¹

Currently a national representative for the CAW, where he has held a series of senior positions. Anthony is also a former member of the Canada Employment Insurance Commission.

APPOINTED TO THE BOARD ON SEPTEMBER 1, 2005.



G. Patrick H. Vernon²

Former associate counsel with McCarthy Tétrault LLP. He previously served on the board of directors of the Munich Reinsurance Company of Canada and Mizuho Bank Canada, a wholly-owned subsidiary of a major Japanese bank.

APPOINTED TO THE BOARD ON OCTOBER 1, 2001.



Our good governance guarantee

At OPB, we're committed to good governance. That means ensuring we have the necessary structures and procedures in place to manage, administer and monitor the pension plan based on industry best practices.

To meet this mandate, we've built a solid governance framework – one based on a well-defined operating structure, high professional standards, and a deep-seated culture of integrity and openness.

Governance continued to be a Board priority in 2005. Among other things, the Board approved a *Statement of Governance Principles* and *General By-law* – two touchstone documents that define the Plan's governance framework and procedures. The Board also started to formulate an annual governance self-assessment process to ensure continued best practices.

There were two important changes to the Board during 2005. Sadly, Patrick Vernon, a highly valued member of the Board, passed away in August. On a more positive note, Anthony Wohlfarth – a national representative for CAW – joined the Board in September.

At the end of the day, good governance is all about protecting your pension so it's there when you need it. For more information on governance, including OPB's privacy policy, visit our website at www.opb.on.ca.



Corporate Directory

Officers

Donald D. Weiss

President & CEO

Mark J. Fuller

Executive Vice-President & COO

Linda J. Bowden

Senior Vice-President,
Corporate Services

Robert F. Kay

Senior Vice-President, Investments

Peter Shena

Vice-President, Policy &
Communications

Thomas Choi

Vice-President, IT Services and
Project Management Office

Darla S. Sycamore

Treasurer & Director, Finance

Management

Stuart Anderson

Manager, Project
Management Office

Anne Catherall

Director, Human Resources

Armand de Kemp

Controller

Veronica Harris

Manager, Member Services

Mark A. Henry

Director, Policy & Procedures

Peter Johnson

Director, Client Services

Karen Kojima

Manager, Investment Finance

John Konas

Manager, Pensioner Services
& Acting Manager, Data Quality

Kimberly Norton

Director, Administrative &
Board Services

Siva Sivanesan

Manager, Procedures

F.J. (Jim) Wyseman

Manager, IT Services



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