Your Pension. Our Promise.

ONTARIO PENSION BOARD 2008 ANNUAL REPORT

OPB
Your Pension. Our Promise.

Who we are

Ontario Pension Board ("OPB") is the administrator of the Public Service Pension Plan ("PSPP" or the "Plan") – a major defined benefit pension 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 $14.5 billion in assets, 38,000 active members, 36,150 pensioners and 5,000 deferred members, the PSPP is one of Canada's largest pension plans. It is also one of the country's oldest pension plans, successfully delivering the pension promise since the early 1920s.

Who we serve

OPB serves:

- PSPP members, pensioners and employers ("clients"), and
- other key stakeholders (the Plan Sponsor, bargaining agents and taxpayers).

About your Plan

The PSPP is a defined benefit pension plan that is designed to enhance the financial security of its members. Retired members receive a pension benefit based on a pre-set (defined) formula. That formula takes into account each member's earnings history and years of service with the Plan. To fund the pension promise, both members and employers make contributions to the Plan.

Our promise

OPB's promise is fourfold:

1. **protect the long-term vitality of the Plan,**
2. **invest the Plan's assets to maximize returns within acceptable risk parameters,**
3. **keep contribution levels and benefits stable and affordable, and**
4. **deliver superior, cost-effective service to clients and stakeholders so that they can maximize their participation in the Plan.**

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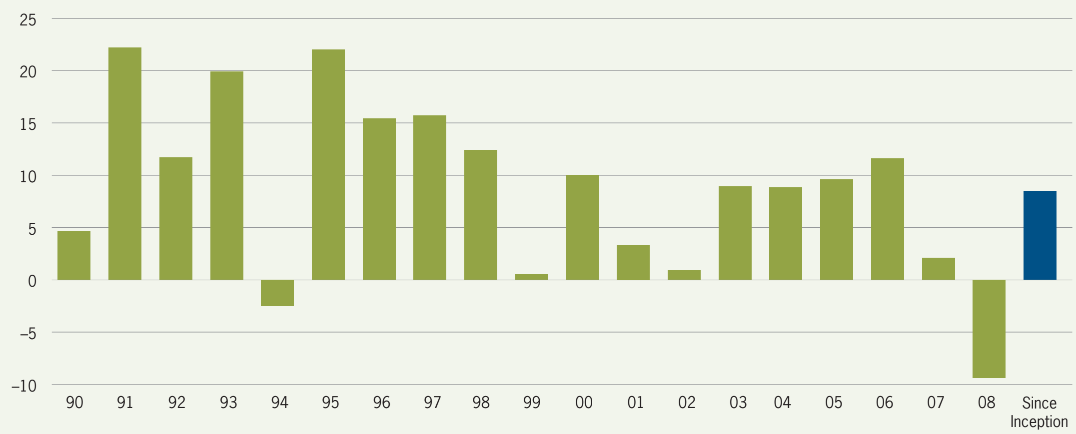
Financial highlights

OPB's significant holdings in high-quality government bonds provided a stabilizing influence in an economic environment characterized by uncertainty, volatility and substantial market declines. In the end, our continued focus on capital preservation and prudent risk management enabled the Plan to finish the year with investment performance of –9.4%. Although negative, this result compares favourably with most Canadian pension plans, which produced an average result of about –16%.

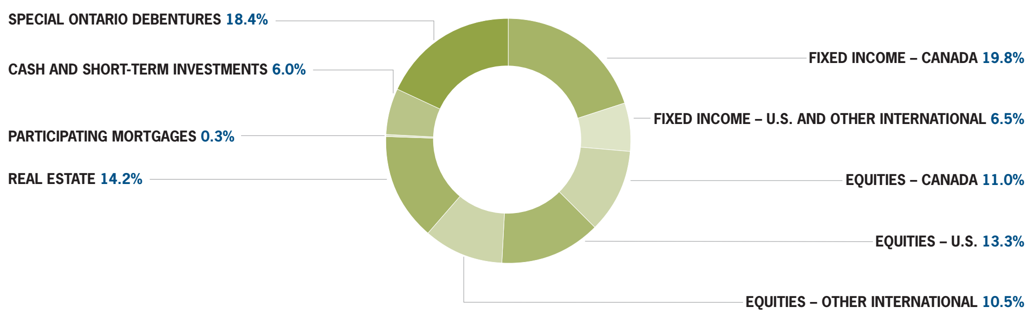
TOTAL RETURNS

% per annum



ASSET MIX

as at December 31, 2008

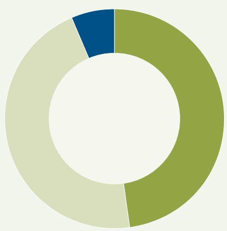


Client service highlights

OPB continued to move forward with strategic initiatives aimed at enhancing the service experience for clients and stakeholders, as well as improving cost-effectiveness. For example, we reduced turnaround times for buyback quotes, provided online access to important personal information, developed a suite of employer-focused services, and began benchmarking our cost-effectiveness against peer plans.

CLIENT PROFILE

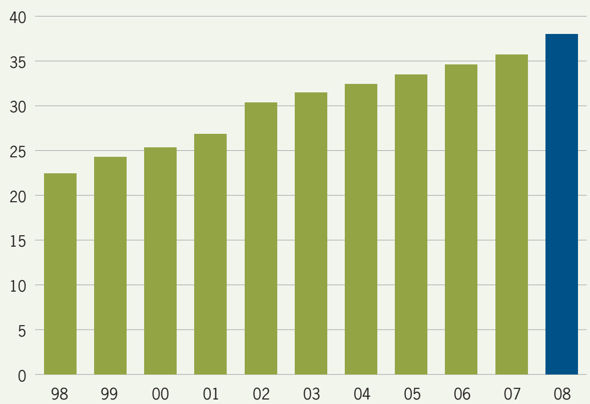
as at December 31, 2008



MEMBERS	38,000
PENSIONERS	36,150
DEFERRED MEMBERS	5,000

GROWTH IN MEMBERSHIP

thousands of persons



SERVICE TO MEMBERS

	2008	2007	2006
Telephone calls	**21,154**	17,996	16,295
Buybacks of service	**3,302**	1,519	1,285
Pension estimates	**1,402**	1,070	1,140
Presentations	**130**	104	37

SERVICE TO PENSIONERS

	2008	2007	2006
Telephone calls	**21,096**	18,870	19,366

Your Pension. Our Promise.

Protecting the promise

OPB's long-standing commitment to capital preservation and prudent risk management served the Plan well in 2008. In fact, it shielded the Plan from the worst of an economic storm that battered investors around the world.

In response to growing uncertainty in the economy and capital markets, we deferred plans to broaden our investment strategy. We also chose to continue our emphasis on preserving value and maintained our focus on managing risk. It was the right course.

Strong and affordable

Our significant investment in high-quality government bonds and real estate enabled us to outperform the industry average and preserve an estimated $1 billion in asset value – value that would have evaporated had we not outpaced the industry average. At the same time, strong cash holdings have solidly positioned us to take full advantage of higher long-term return opportunities as the markets begin to recover.

That said, the economic turbulence of 2008 affected the funded status of pension plans. The PSPP was no exception. Given our performance, an increase in our funding shortfall is to be expected. However, it's important to note that we have successfully navigated through market downturns and funding shortfalls in the past.

Over time, we expect gradual market recovery and investment returns to have a positive impact on the shortfall. In the meantime, we will continue to take the strategic steps necessary to manage the shortfall and keep the Plan strong and affordable. We will also continue to advocate for funding policies and legislative changes that will strengthen the environment for defined benefit pension plans.

During these tough economic times, members and pensioners can take comfort in the fact that they belong to a defined benefit pension plan and, as such, the pension benefits they've earned are secure.

Unwavering commitment

While the financial status of the Plan was a priority in 2008, it was not our only priority. Throughout the year, we maintained an unwavering commitment to our multi-year business strategy. We moved forward on a number of important initiatives aimed at providing the personalized services and guidance our clients and stakeholders need to make informed decisions and maximize the value of their participation in the Plan. For example, we improved client response times, rolled out new e-services for members and pensioners, and introduced a suite of services for employers. In addition, we took action to protect the long-term vitality of the Plan and supported efforts to encourage broader coverage by defined benefit pension plans.

Despite ongoing economic challenges, we're confident about the future. We're well positioned to move ahead with the work at hand – helping members prepare for a financially secure retirement.

Message from the Chair

M. Vincenza Sera
Chair

While 2008 was a challenging year, the Board kept focused on OPB's core values in order to meet the pension promise.

Successful succession

One of the most important Board decisions is CEO succession. In late 2007 Don Weiss announced his decision to retire at the end of 2008. In order to ensure a smooth transition, the Board appointed Mark Fuller president and embarked on a CEO selection process. While Mark was well known to the Board and a preferred candidate, we wanted to ensure that he was the best person for the job. Leadership is a contributing factor to the success of any organization, and the Board undertook a comprehensive process, including working with outside consultants, prior to making its decision. On January 1, 2009, Mark was appointed president and CEO.

Since joining OPB in 1999, Mark has made outstanding contributions in strategy development, stakeholder relations, liability management, governance, risk management and service delivery. During his first year as president, Mark successfully guided OPB through one of the most difficult investment years on record. At the same time, he took critical steps to enhance OPB's capabilities by adding bench strength in key strategic areas, including finance, corporate affairs and investments.

The Board has complete confidence in Mark's ability to move the organization forward during these tumultuous times.

The Board extends its sincere appreciation to Don for his leadership over the years. Don made many valuable contributions to the growth and change that took place at OPB during his tenure. We thank Don for his efforts on behalf of OPB and wish him all the best.

Protecting the Plan

Protecting the long-term health and vitality of the PSPP and delivering on the pension promise is our top priority. Proactively managing the Plan's funded status is central to that effort. To that end, OPB completed a long-term funding study in 2008. The study took a look at the future to determine whether contribution levels could adequately fund the pension benefits promised by the Plan going forward. The study showed that, over the past several years, there have been significant structural shifts in the demographics of the Plan, as well as changes in economic trends. Because of these factors, the value of pension benefits has increased. People are living longer and fewer people are terminating from the Plan. This translates into greater pension benefits being paid out for a longer period of time. This means greater value for members. The bottom line is that it costs more now to provide a dollar of this valuable benefit.

The study indicated that an increase in contributions was required to pay for the additional cost of the benefits. OPB presented a number of options to the Plan Sponsor and, in November 2008, the Plan Sponsor announced a contribution increase for members of the Plan. Employers will match those increased contributions. OPB supported the Plan Sponsor's decision. Sharing the increased pension costs between members and employers, and maintaining all current benefit levels, is a clear demonstration of the Plan Sponsor's commitment to the value that the Plan provides to members and employers. For more information about the contribution rate change, visit www.opb.ca

During 2008, OPB continued to invest in an enterprise-wide initiative aimed at embedding an enhanced risk management culture and discipline. As part of this ongoing initiative, we implemented a number of controls and processes intended to protect the Plan and optimize operations. We also hired internal expertise to help deal with the emerging risks associated with a changing investment environment and our evolving investment strategy.

Economic realities

OPB's attention to capital preservation and prudent risk management shielded us from the worst of the global financial market turbulence. The events of 2008 confirmed that our long-term strategic plan is the right one. Among other things, our plan calls for an investment team with bench strength, a strong risk management framework, and a commitment to provide our clients with the support and advice they need to maximize the value of their participation in the Plan.

In today's environment, investing requires a commitment to having a strong group of professionals and the proper infrastructure support in place. For the last two years we have been focused on increasing the experience and talent base of our investment area. We believe this is the only way to proceed, and we will continue investing in the organization where it is necessary, but at the same time constraining costs. For example, we have put a freeze on staffing levels, with the exception of our investment area, and we are holding management compensation at 2008 levels.

Making good governance better

Over the years, OPB has built its success on a foundation of good governance. It's a solid foundation, but it can't be taken for granted. It requires an ongoing commitment to continuous improvement. While an assessment conducted in 2007 found that OPB's governance practices exceed industry standards, we believe there is always room for improvement. That's why in 2008, we developed and implemented a governance improvement plan that will help to ensure we continue to uphold the highest principles of integrity, transparency, accountability, efficiency, and superior performance.

For example, in a move designed to enhance our stewardship of the Plan's finances, OPB now participates in an independent program that benchmarks our performance and cost-efficiency with industry peers. Conducted by CEM Benchmarking Inc., this program will allow us to see how our investment and pension operations stack up against those of other plans. More importantly, it will provide valuable insight into our returns, risks, cost-effectiveness, and service – so that we realize continuous improvement.

If good governance is the foundation for OPB's success, effective risk management is the cornerstone – a point that was driven home in 2008. Poor risk management in the financial services industry sparked an economic crisis of global proportions. At OPB, however, effective risk management enabled us to deliver investment performance that was well above average.

2008 was a year of unparalleled challenges. On behalf of the Board, I want to thank Mark, his management team, and OPB's dedicated staff for successfully guiding the PSPP through it all.

M. Vincenza Sera, Chair

Board of Directors

M. Vincenza Sera (Chair)

Managing Director of the Financial Institutions Group, Investment Banking for National Bank Financial from 1992 to 2004. 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 of experience in investment banking.

Appointed to the Board on September 17, 2004.

Appointed as Chair on July 1, 2007.

Lisa Hillstrom

Executive Officer, Pension and Benefits, Ontario Provincial Police Association from April 2006 to present. As Executive Officer for the OPP Association, she provides bereavement counseling, retirement counseling, and assistance to members with insured benefit appeals, LTIP, WSIB and return to work issues. During her career, she has held several positions in the Pension and Benefit field with the Ontario Public Service. Immediately prior to joining the OPP Association, she held the position of Benefit Advisor, Ontario Shared Services, managing the Benefit Unit servicing the OPP, Ministry of Community Safety and Correctional Services.

Appointed to the Board on February 13, 2008

J. Urban Joseph, O.C. (Vice-Chair)

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.

Appointed as Vice-Chair on July 1, 2007.

Patricia Li

Assistant Deputy Minister in the Ministry of Culture. During her career, she has held a series of progressively more responsible management positions in the Ontario Public Sector, practised public accounting, and worked for several national retail corporations.

Appointed to the Board on October 1, 2007.

M. David R. Brown

A former managing principal at Eckler Ltd., a leading Canadian actuarial consulting firm. During a career spanning more than 40 years, David has consulted to pension clients in both the private and public sectors, served on the Pension Commission of Ontario, and held numerous positions with professional organizations.

Appointed to the Board on October 25, 2006.

Hugh G. Mackenzie

Principal in his own economic consulting business and a Research Associate of the Canadian Centre for Policy Alternatives. He has worked for over 30 years in the trade union and non-profit sectors, as well as in all three levels of government. He is a member of the board of the Atkinson Charitable Foundation and the Ontario Teachers' Pension Plan board.

Appointed to the Board on December 4, 2002.

Lynn A. Clark

Founding principal of L.A. Clark Consulting, an independent consulting and research organization that focuses on pension and investment issues. Lynn has more than 20 years of experience in the investment banking and pension arena and is a former member of the Industry Task Force on Pension Governance.

Appointed to the Board on October 5, 2006.

Anthony Wohlfarth

Currently the Executive Director of the Carlton University Academic Staff Association ("CUASA"). Previously, he was national representative for the CAW, where he has held a series of senior positions. From 2000 to 2005, he was Commissioner (Workers) with the EI Commission. He has 25 years of diverse experience in the fields of pensions and employee benefits. Tony also participates in Director's College, co-sponsored by the Conference Board of Canada and DeGroote School of Business at McMaster University.

Appointed to the Board on September 1, 2005.

A tradition of good governance

At OPB, we're proud of our commitment to good governance. Our well-defined operating structure, high professional standards, and deep-seated culture of integrity and openness support performance excellence on behalf of all our clients and stakeholders.

At the foundation of OPB's governance framework is a series of documents that clearly defines our governance structure, practices and responsibilities. These include a Statement of Governance Principles, General By-law, Code of Conduct, Conflict of Interest and Confidentiality Policy, and Memorandum of Understanding.

OPB's Board of Directors holds ultimate responsibility for the Plan. Members of the Board are appointed by the Government of Ontario, but include nominees appointed by bargaining agents representing members of the Plan. Individually, Board members bring a unique perspective and skill set to the table. Collectively, they offer professional expertise on a range of specialties. The Board has six regularly scheduled meetings each year and additional meetings as required.

To free up time to focus on strategic direction and high-level issues, the Board delegates a number of important tasks to five Board committees. These include a Governance and Conduct Committee, Investment Committee, Audit Committee, Pensions Committee, and Human Resources Committee. Each committee – through its chair – reports directly to the Board. Each Board committee meets on a regular basis.

Day-to-day administration of the Plan and management of the Plan's assets is delegated to OPB's management team. The president and CEO is ultimately accountable to the Board for the duties and responsibilities of management.

For additional details on OPB's governance structure, go to OPB's website at **www.opb.ca**

Straight talk with the CEO

Mark J. Fuller
Chief Executive Officer

At OPB, we take our role as stewards of the PSPP seriously. It's an important role – one that requires a high degree of care and commitment, and no shortage of courage. While 2008 certainly put our stewardship to the test, it likewise demonstrated the value of our long-standing commitment to capital preservation and confirmed the merits of our underlying principles.

There is no doubt that 2008 was a tough year. Steep market declines, an unyielding credit squeeze, and a slowing global economy took their toll on individual and institutional investors alike. At the same time, governance and risk management failures in the financial services industry created a crisis of confidence. And concerns about pension plans and other retirement vehicles became front-page news and a topic of conversation for Canadians across the country.

Given the events of 2008, it's only natural that some of our clients and stakeholders may be concerned about the future. We want to address those concerns up front by providing straightforward answers to some of the pressing questions we've been asked. While some of those questions focus on investment results, several focus on other key aspects of running a successful pension plan, such as funding, cost containment, client service initiatives, and the regulatory environment for defined benefit plans.

Q **How was OPB's 2008 investment performance affected by the recent volatility in the stock market?**

A > While most of the world's stock markets fell by 30% or more, our conservative investment strategy and focus on capital preservation shielded the Plan from the worst of the market meltdown. While our losses were moderated by a rigorous, common sense approach to risk management, we weren't totally immune to 2008's historic market losses and ended the year with a performance result of –9.4%.

Q How did OPB's performance compare to that of other pension plans?

A > The industry numbers aren't all in yet, but it looks like our result was as good as – or better than – that of most other pension plans. Industry analysts estimate that the average Canadian defined benefit pension plan experienced an investment loss in 2008 of 16%. Our 9.4% loss puts us well above the average. Going into 2008, the global economy was showing signs of distress, so we made a deliberate decision to maintain a focus on capital preservation and risk management. In the end, an emphasis on high-quality fixed income investments, a solid Canadian real estate portfolio, and our cash holdings protected the overall value of the Plan.

Q What impact did investment results have on the funded status of the Plan?

A > The difficult markets affected the funded status of virtually every pension plan. The PSPP was no exception. We are currently conducting a valuation to determine the funded status of the Plan at year-end 2008. The full impact of our investment performance won't be known until that valuation is complete; however, we anticipate it will show the Plan was approaching 90% funded as of December 31, 2008. Although this shortfall is significant, we've successfully managed through market downturns and funding shortfalls before.

Q Does this mean my contributions will go up or that my benefits will be reduced?

A > Under current pension law, we must file a funding valuation with Ontario's pension regulator at least once every three years. Any shortfall identified in that valuation must be addressed by the Plan Sponsor. The Plan Sponsor can choose to make special payments, increase regular contributions, decrease benefits for future service, or any combination of the above. The next valuation we file with the regulator will be based on our funded status at year-end 2010 – two years from now. In the meantime, OPB is looking at measures we can take to help reduce the shortfall or its impact. These include advocating for funding relief, continuing to implement our investment strategy, and reassessing the discount rate used for our funding valuation (to ensure it reflects that investment strategy). In any event, it's worth noting that as a member of a defined benefit plan, you can take comfort in the fact that the benefits you've earned to date are protected under the *Pension Benefits Act*. It's also worth noting that the two-phase contribution rate increase announced in late 2008, which is being rolled out in 2009 and 2010, was not initiated because of our 2008 investment results. It was initiated as a result of a long-term funding study, to address an increase in the cost of the pension benefits provided by the Plan as a result of changing demographic and economic trends such as people living longer and historically low interest rates. For more information about the contribution rate change, visit www.opb.ca

Q How does the funded status of the PSPP compare to that of other pension plans?

A > That's a difficult question to answer. Here's why. The funded status represents the ratio of Plan assets to Plan liabilities. However, different plans use different methods and assumptions to value their assets and liabilities. As a result, comparing the funded status of one plan to another can be like comparing apples to oranges. What we can tell you is that if other plans valued their assets in the same way, the PSPP's funded status would compare favourably. (For additional details on how funded status is determined, see "Funding the pension promise" on page 12.)

We are solidly positioned to invest in a wider array of asset classes as opportunities arise

Q Has OPB implemented the investment strategy approved in late 2007?

A > There are two key elements to OPB's new investment strategy:

- a change in asset mix, to reflect a change in the Plan's demographics, and
- an enhanced risk management framework, to effectively manage the growing complexity of the markets.

The asset mix change calls for an increased investment in equities and a greater emphasis on diversification into foreign markets, with long-term growth potential. As 2008 unfolded, it became clear that – given the current market conditions – it was not the time to be pressing for an increase in holdings in either of these asset categories until volatility subsided. That said, we continued to lay the groundwork for future changes in asset allocation by adding in-house investment expertise and capacity, strengthening our risk management controls, and ensuring we have appropriate support systems in place. All this means we are now solidly positioned to invest in a wider array of asset classes as opportunities arise.

Q What will OPB's investment strategy be into 2009 and beyond?

A > We expect economic instability and market volatility to persist through 2009. During that period, we will continue to exercise caution – recognizing the value of our capital preservation approach to investing. As we see signs that market conditions are beginning to stabilize, we will resume rolling out our expanded asset allocation strategy. This will include deploying cash into capital markets and redirecting investment into new asset classes and markets offering higher, long-term rates of returns. We will continue to take a proactive and deliberate approach to risk control – one that combines the use of sound judgment and investment expertise, supported by comprehensive financial modelling.

Q Many organizations have been forced to depart from their strategic plans as a result of market events. Is this the case for OPB?

A > No. We remain fully committed to our multi-year strategic plan – a plan focused on delivering the pension promise, protecting the long-term vitality of the Plan, and ensuring clients and stakeholders get maximum value from their participation in the Plan. In fact, if anything, the events of 2008 have confirmed that we are moving in the right direction. But, given the uncertainty that has gripped the world economy, we need to proceed with a careful eye on expense control and cost containment. That means we may need to ease up on the ambitious pace with which we've been implementing some strategic initiatives.

We are mindful of the need to manage expenses – particularly in these economic times. So we are taking a number of steps to contain costs...looking forward, we will continue to invest where appropriate to ensure clients and stakeholders receive optimum value for their dollar.

OPB is committed to strengthening the DB environment and encouraging broader coverage of Ontarians by DB plans

Q What steps is OPB taking to contain costs?

A > Over the past few years, OPB has made a significant investment aimed at enhancing the service experience for our clients and stakeholders. That investment, which is now paying off, has led to a number of important service improvements (see "Our scorecard for 2008" on page 10 for details). Despite our investment in service improvements, our operating costs are still competitive with similar plans of the same size. However, we are mindful of the need to manage expenses – particularly in these tough economic times. So, we are taking a number of steps to contain costs, including limiting compensation, curtailing strategic initiatives, and cutting back on travel. Looking forward, we will continue to invest where appropriate to ensure clients and stakeholders receive optimum value for their dollar. For example, although we have put a freeze on staffing levels outside our investment area, we will continue to augment our investment team to ensure we have the expertise and capacity needed to carry out our long-term investment strategy.

Q What client service improvements did OPB make in 2008?

A > We introduced a number of improvements to our client and stakeholder services. For example, we significantly reduced turnaround times for buyback quotes and began offering highly personalized advice and service to members facing buyback and transfer decisions. We also moved forward with the introduction of e-services. Members and pensioners now have online access to important personal information about their pension. In addition, we assigned dedicated staff to assist participating employers in doing business with OPB, and conducted our first employer survey to guide future service improvements. (For additional information on service improvements see "Our scorecard for 2008" on page 10.)

Q What is OPB doing to support, promote and protect defined benefit ("DB") pension plan coverage?

A > OPB is committed to strengthening the DB environment and encouraging broader coverage of Ontarians by DB plans. During 2008, we participated in a number of initiatives to help achieve these objectives. For example, we provided the Ontario government with input to be used to create new legislation governing the division of DB pensions in a marriage breakdown. This new legislation makes it easier to divide pension assets fairly and at a lower cost. We also prepared a response to the final report of the Ontario Expert Commission on Pensions. Our response, which was submitted to Ontario's Minister of Finance in early 2009, includes a number of recommendations to address the key funding, governance and regulatory challenges facing DB plans today.

Your Pension. Our Promise.

Our scorecard for 2008

At OPB, we're on a mission . . . to protect the long-term vitality of the Plan, maximize returns within acceptable risk parameters, keep contribution levels stable and affordable, and deliver superior, cost-effective service to help clients maximize their participation in the Plan. Fulfilling that mission is no small task, but we're committed – and determined – to make it happen. Each year, we make significant inroads, and 2008 was no exception. Against a backdrop of economic turmoil, we continued to move forward on several fronts.

Service improvements

WHAT WE DID IN 2008	WHY WE DID IT	WHAT'S AHEAD
Implemented a new client service IT system	To reduce turnaround times for common transactions and respond more quickly to client requests. As an example, turnaround times for routine buyback quotes have typically been cut from 30 days to 48 hours.	Planned service improvements include • providing assistance with and advice on buyback decisions and • streamlining the retirement process to make it more efficient and member-friendly.
Accelerated our web-services strategy	Part of an ongoing initiative to provide clients with access to information, as well as to position OPB to provide advice. Clients now have convenient, online access to key information and tax reporting documents, such as annual pension statements, T4As, and escalation (cost-of-living) letters.	Increasing our offering of web services, including self-service for routine transactions, advanced online calculators, the ability to submit forms online, while ensuring state-of-the-art security and privacy.
Piloted a personalized approach to assisting members transferring benefits between the PSPP and other pension plans	Provide transferring OPP and CTAR* members with the proactive, personalized information and advice required for them to make informed decisions and get maximum value from participation in the Plan. * Former employees of the Ministry of Finance Ontario now employed with the Canada Revenue Agency (Corporate Tax Administration Redesign)	Expanding access to personalized assistance and advice for a wider array of transactions.
Conducted our first employer survey, developed a suite of employer-focused services, and allocated dedicated resources to respond to employer needs	To make it easier for employers to do business with OPB and to ensure that employers get full value for their participation. OPB has developed tailored services and allocated dedicated resources to • provide specialized support for employers and • provide employers with up-to-the-minute information on Plan changes.	Continuing to partner with employers to • streamline and facilitate transactions, and • support their attraction and retention strategies by ensuring current and prospective members understand the full value of their pension plan.
Increased the number of face-to-face meetings with members and employers	To provide detailed information and advice on available benefits, life event options, and pre-retirement timelines. More than 130 presentations – customized for specific member and employer groups – were conducted in 2008.	Expanding access to information and advice by making client presentations more accessible (e.g., webinars and video conferencing).

Protecting the Plan

WHAT WE DID IN 2008	WHY WE DID IT	WHAT'S AHEAD
Conducted a long-term funding study	As a proactive measure designed to protect the long-term financial vitality of the Plan by ensuring contribution rates are sufficient to fund pension benefits. The study found that the cost of funding a dollar of pension benefit has gone up due to changing demographic and economic trends. Based on the study's results, the Plan Sponsor decided to implement a modest contribution increase for both employers and members. OPB conducted 34 education sessions to brief members, employers and bargaining agents on the details.	Partnering with the Plan Sponsor and other stakeholders to develop a formal funding policy for the PSPP. This document will establish guidelines aimed at ensuring the Plan's assets are sufficient – over the long term – to meet its pension obligations.

Educate and advocate

WHAT WE DID IN 2008	WHY WE DID IT	WHAT'S AHEAD
Provided the Ontario government with an innovative solution for dividing pensions upon marriage breakdown	To promote a fair, equitable and low cost process for dividing pension assets when a marriage breaks down. In October 2008, the provincial government adopted legislation enabling the OPB solution – a solution that dramatically simplifies the process and reduces legal costs for all parties.	Continuing to initiate and support efforts to strengthen the environment for DB pension plans and encourage broader DB coverage for Canadians. More specifically, we will • submit recommendations to the Ontario government calling for changes to funding requirements (to provide funding relief to DB plans in the wake of 2008's unprecedented financial market declines), and • make a submission to the federal government on pension reform (we believe that positive change at the federal level will support positive change at the provincial level).
Prepared a formal response to the final report of the Ontario Expert Commission on Pensions	To promote positive change in the wake of the report and to propose measures aimed at addressing the key funding, governance, and regulatory challenges facing DB plans today. The response was submitted to Ontario's Minister of Finance in early 2009.	

Astute and disciplined investment

WHAT WE DID IN 2008	WHY WE DID IT	WHAT'S AHEAD
Deferred full implementation of our investment strategy and supplemented risk management controls	As a response to market and economic developments designed to • protect the Plan from the full extent of adverse market conditions, • position the Plan to seize long-term return opportunities as markets recover, and • solidify the risk management framework we've developed for investment assets and strategies.	Continuing to focus on capital preservation through this period of market volatility. As market conditions begin to stabilize, we will look to deploy cash holdings into capital markets and pursue strategies designed to generate higher returns over the long term.
Continued to lay the foundation required to effectively implement our investment strategy	To ensure we have the investment expertise and capacity required to • invest in a broader range of asset classes, • expand our investment in select high-growth regions around the world, and • generate value-added returns. During 2008, OPB expanded its in-house investment expertise and capacity, and built new partnerships with external investment managers and advisors. It also strengthened its investment risk management framework to • protect the Plan from unrewarded investment risks, and • set the stage for investing in a wider range of assets and strategies.	
Began participating in an industry-wide benchmarking program	To provide performance and cost-effectiveness data that can be used to measure investment performance and ensure stakeholders receive optimum value for their money.	

Funding the pension promise

Keeping track of the financial health of the Plan

Investment returns are one of the key factors that impact the funded status of a pension plan. So it's no surprise that the market meltdown of 2008 had a major impact on the financial status of pension plans across the country.

At OPB, we're currently conducting a valuation to determine the funded status of the PSPP as of year-end 2008. The full impact of our investment performance won't be known until that valuation is completed, sometime in mid-2009; however, we anticipate that it will show that the Plan was approaching 90% funded as of December 31, 2008. (This figure fully reflects OPB's investment experience in 2008 and is based on a "going concern" valuation, which assumes the Plan will continue to operate indefinitely.)

Although our shortfall is significant, OPB has successfully managed through market downturns and periods of significant shortfalls before.

It's important to keep in mind that the funded status is a "snapshot" of the pension plan's financial position at a specific point in time. But the reality is:

- pension plans like the PSPP operate with an extended time horizon because the pension benefits being earned today may not be paid out for 30 or 40 years, and
- funding positions can be expected to fluctuate over time – particularly in times of investment market volatility. Our goal is to ensure the Plan remains fully funded over the long term.

About the methodology

Another point to keep in mind is that different pension plans use different methodologies to determine the actuarial value of their assets. (The actuarial value of assets is a key factor used to determine the funded status of the Plan at a particular point in time.)

The methodology used by OPB recognizes 100% of any market gains or losses in the year in which they occur. This means the full amount of the investment loss we incurred in 2008 is recognized in our funded status as of December 31, 2008. Conversely, when there is an upswing in the market, the full impact of any gain will be recognized in the year in which it occurs.

Some plans use a different methodology called "smoothing." Smoothing spreads the recognition of gains or losses over an extended period – typically three to five years. This means that only a fraction of the investment losses incurred in 2008 will be reflected in any funding valuation prepared as of December 31, 2008. The remaining losses will be carried forward and reported in future years. As a result, the funded status of these plans may *appear* stronger after a year of steep market declines.

On the other hand, if smoothing is used and there is an upswing in the market, the full impact of any gains won't be reflected in the funded status – at least, not in the short term. That's because gains, like losses, will be spread over several years.

OPB made a conscious decision to move away from asset smoothing in 2005. Our view is that an unsmoothed approach provides a more precise snapshot of our financial position at a given point in time – allowing OPB and the Plan Sponsor to respond more quickly to funding challenges. We also believe it provides our stakeholders with greater transparency, simply because market gains and losses are reflected in the funded status right away.

At OPB, ensuring the Plan remains strong and affordable is our top priority. With that in mind, we will continue to monitor the funding situation closely and will explore and take all appropriate steps to deliver the pension promise and protect the long-term vitality of the Plan.

Factors affecting funding status

Investment performance can have a significant impact on the funded status of a pension plan. But it's by no means the only factor. History has shown that the funded status can be affected by a variety of factors that can drive up the cost of the benefit, such as:

- changing Plan demographics (for instance, a change in life expectancy rates or employment termination rates), or
- interest rate fluctuations, or
- levels of inflation and salary increases

The funded status can also be affected if contribution rates are too high or too low.

Building strength for the long term

During 2008, OPB conducted a comprehensive long-term funding study. The study, which looked at the appropriateness of contribution levels, was a proactive measure designed to protect the long-term financial vitality of the Plan. (The study was carried out as a follow-up to two earlier studies – a funding risk study and an experience study. It was not conducted in response to recent events in the financial markets.)

The results of the long-term funding study showed that the cost of providing the pension benefits promised by the Plan has risen over the years, due to changing demographics and economic trends. Based on the results, the Plan Sponsor decided to implement a modest contribution increase. That increase is being split evenly between employers and members and is being phased in over two years. The first phase was implemented on January 1, 2009; the second phase will be implemented on January 1, 2010.

Once the increase has been fully implemented, the average contribution rate for members – and the associated matching contribution for employers – will be 7.75% of salary. (OPP officers and their employer pay an additional 2% of salary to fund a 50/30 early retirement provision.) This means the average member will contribute 0.7% of salary more per year. Details on the new contribution rate can be found at www.opb.ca

The increase – the first for the Plan since 1990 – is a prudent step designed to address higher benefit costs and strengthen the Plan over the long term. Even with the increase, PSPP contribution rates remain affordable for members and employers.

Financial review

The financial review provides a breakdown of the financial and operational results of the Plan, as well as the steps taken to protect the Plan's funded status. For a high-level summary of financial and administrative statistics, refer to the fold-out "Financial Highlights" section at the front of the report.

2008 Investment strategy

OPB's primary investment objective is to maximize returns, within an acceptable risk framework. To help realize this objective, OPB invests in a range of asset classes, including:

- interest-bearing investments – cash, short-term investments, debentures and marketable bonds,
- public equities, and
- real estate.

In late 2007, OPB's Board of Directors approved an investment strategy designed to increase the Plan's weighting in equity investments, expand our investment in high-growth regions of the world, and broaden our range of asset classes and strategies.

Heading into 2008, changing market conditions prompted us to defer full implementation of the investment strategy. The plan to redirect Fund assets toward higher growth regions of the world provides an opportunity for increased returns. Having said that, we think it makes sense to see signs of improvement in global economic and market conditions before fully implementing that plan. Faced with increasingly volatile investment markets and a weakening global economy, we also made the deliberate and considered decision to maintain a focus on capital preservation by continuing to emphasize high-quality fixed income investments, including cash. The Plan's solid, directly owned Canadian real estate also provided a good counterbalance in a year of equity market turbulence.

The decision to defer full implementation of the investment strategy has been the right one for the Plan. With its strong cash position, the Plan has the liquidity to take advantage of return-generating opportunities as markets recover over the medium to long term.

Operating within the mandate set by OPB's Board of Directors and taking into account economic, regional, industry, and currency factors, OPB management develops strategy and implements investment decisions designed to generate solid risk-adjusted real returns within the investment portfolio. In all cases, investment decisions are guided by OPB's Statement of Investment Principles and Beliefs, Statement of Investment Policies and Procedures, and other OPB internal investment policies.

Changing market conditions, OPB's broader investment strategy, and an ever-expanding set of investment opportunities demand expertise and a keen focus on risk management. During 2008,

- we expanded our roster of external investment managers and
- we increased our complement of internal investment professionals. Specifically,
  - OPB hired a vice-president, real estate, enabling us to bring the asset and portfolio management of our real estate in-house, and
  - Hired a Director, Investment Research and Policy Development, enabling us to focus on enhancing OPB's investment risk management framework, which is fundamental to constructing the Plan's investment portfolios.

Our overall performance

The Plan's overall investment performance for the year ending December 31, 2008, was –9.4%, down from 2.1% in 2007. (Comparative returns for 2007 have been restated with Special Debentures at market value.)

Net assets declined by $1.77 billion in 2008, compared to a decline of $42 million in 2007. This reflects a sharp contraction in the value of the Plan's public equities portfolio, a small net loss in our real estate portfolio, income return offset by capital depreciation and an overall gain in the fixed income portfolio.

Interest-bearing investments

OPB's interest-bearing investments include:

- cash and short-term investments,
- non-marketable Province of Ontario Debentures ("Special Debentures"), and
- marketable bonds.

In 2008, this investment category accounted for about 52% of the Plan's total assets and provided the stable returns that anchored the Plan.

Cash and short-term investments – OPB's cash and short-term holdings at year-end 2008 stood at $1.0 billion (or 6.8% of net assets), up from $0.97 billion (or 5.9% of net assets) a year earlier. This positions the Plan to continue implementing its broader investment mandate and to take advantage of longer-term capital market opportunities as markets begin to recover.

Special Debentures – The Special Debentures, valued at $2.69 billion, were issued to the Plan by the Province of Ontario as an initial funding mechanism when the PSPP was established as a separately funded plan in 1990. Over the years, these non-marketable debentures have provided the Plan with a stable cash flow for paying pensions. In 2008, they provided $539 million in cash flow, compared to $536 million in 2007.

Marketable bonds – During 2008, Canadian bonds returned 4.8%, compared to 3.2% in 2007. With a year-end value of $2.88 billion (similar to the $2.87 billion at year-end 2007), Canadian marketable bonds make up the biggest slice of OPB's interest-bearing assets.

OPB's international bond holdings generated a strong return of 29.5%, largely due to the decline in the Canadian dollar and, as a result, the corresponding increase in the value of those foreign currency denominated securities. In 2007, non-Canadian marketable bonds produced a result of –4.7%, largely due to the rise in the Canadian dollar that year.

Public equities

Equity markets around the globe fell sharply in 2008, with most of the major markets dropping by 30% or more. Year-over-year returns for OPB's equity portfolios reflected those steep declines.

The Plan's Canadian equity portfolio produced a result of –31.3% in 2008, compared to 9.3% in 2007. At year-end, the market value of the Plan's Canadian equities stood at $1.61 billion, down from $2.15 billion at year-end 2007.

The Plan's U.S. equity portfolio reported an outcome of –20.3% for the year (down from 12.4% in 2007), resulting in a loss of $492 million (all returns are stated in Canadian dollars). As of December 31, 2008, the market value of our U.S. equity assets stood at $1.94 billion, down from $2.41 billion a year earlier.

The Plan's international equity portfolio sustained the most significant losses, reporting a year-end result of –34.2%. That represents a loss for the year of $713 million, compared to –4.1% in 2007. A decline in the Canadian dollar, which would normally enhance the returns of foreign currency denominated securites, was not enough to offset stock market declines. The market value of the Plan's international equities as of December 31, 2008, was $1.53 billion, compared to $1.95 billion at year-end 2007.

Real estate

OPB's real estate portfolio is comprised of direct holdings in quality Canadian real estate, with virtually no debt. The portfolio includes more than 11 million square feet of retail, light industrial and office space in major centres across Canada (see page 44 for a list of rental properties owned by OPB). At year-end 2008, retail properties accounted for 64% of the portfolio's income-producing properties (based on square footage), while industrial properties accounted for 30% and office space 6%.

Rental income from properties provides an important source of monthly cash flow for the Plan. Ongoing objectives for the portfolio include:

- continued rental income growth,
- enhanced credit quality of tenants, and
- capital preservation.

OPB's properties are appraised annually by independent appraisers and marked to the appraised value. The market value of OPB's real estate portfolio at year-end 2008 stood at $2.19 billion, compared to $2.30 billion a year earlier – mostly due to a net appraisal loss of $169.0 million.

The portfolio's overall result for the year was –1.3%, compared to 10.4% in 2007. Since 1994, when OPB made its initial investment in real estate, the portfolio has generated an average annual return of 10.1%.

During 2008, OPB acquired the West End Mall in Halifax. This property is located adjacent to real estate assets already held by OPB and, as such, offers opportunity for long-term development.

Financial position

OPB conducts two valuations. The funding basis valuation is used to ensure that there are sufficient assets in the Plan to meet the Plan's obligations. This is the actuarial valuation that OPB uses to manage the Plan since it is the valuation used to determine the contributions to the Plan and the valuation that is filed with the regulatory authorities as required. The accounting basis valuation is used to report the financial position of the Plan for purposes of the financial statements. This valuation is prepared in accordance with the Canadian Institute of Chartered Accountants Handbook.

Both valuations provide a best estimate of the Plan's accrued pension liabilities and both are performed by an independent actuary appointed by OPB's Board of Directors.

Funding basis valuation results

The funding basis valuation prepared as of December 31, 2007 was filed with the regulatory authorities. The next actuarial valuation that is required to be filed with the regulatory authorities will be as of December 31, 2010. Under the December 31, 2007 funding basis valuation there was a funding shortfall of $37 million. The Plan Sponsor is making special payments of $3.8 million over 15 years to pay down this shortfall. The Plan Sponsor was required to contribute an additional $56.3 million in 2008 to cover the cost of benefits earned in 2008 over the combined member and employer matching contributions.

The negative returns in 2008 will have an impact on the funding shortfall in the Plan. However, the impact won't be known until a funding basis valuation prepared as of December 31, 2008 is completed in mid-2009. It is important to remember that pension plans are designed to operate over an extended period of time and that, in the shorter term, fluctuations in funded status are to be expected. The goal is to ensure the Plan remains fully funded over the longer term.

Accounting basis valuation results

For purposes of the accounting basis valuation, the Plan liabilities have been calculated as of December 31, 2007, the date of the last completed actuarial valuation, and extrapolated to December 31, 2008, assuming that experience during 2008, such as inflation, salary increases, retirement ages, and termination and mortality rates, matched the actuarial assumptions. The liabilities are then compared to the actual market value of assets as of December 31, 2008 to determine the Plan's financial position as of December 31, 2008 for purposes of the financial statements.

The accounting basis valuation as of December 31, 2008, shows a deficit of $2.71 billion (see "Note 8, Excess (Deficit)" on page 34). At year-end 2007, the accounting basis valuation showed an excess of $63 million. The year-over-year change is primarily attributable to the negative returns in 2008.

Contributions

The amount of money flowing into the Plan increased in 2008. Contributions for the year totalled $488 million, up from $452 million in 2007. The increase can be attributed to three key factors:

- a 6.4% increase in Plan membership,
- increases in the salaries of members, and
- a spike in past service purchases resulting from the transfer of past service benefits to the PSPP for OPP officers and civilians who had past service benefits under the Ontario Municipal Employees Retirement System ("OMERS") and elected to transfer those benefits.

A comprehensive long-term funding study was conducted in 2008 to assess the appropriateness of contribution levels. The study found that the cost of providing a dollar of pension benefit had gone up since contributions were last set in 1990, primarily due to changing demographics and economic trends.

Based on the study's results, the Plan Sponsor decided to implement a contribution increase. This increase – which is unrelated to recent market events – is split evenly between employers and members and is being phased in over two years. The first phase was implemented on January 1, 2009; the second will be implemented on January 1, 2010.

The new contribution rate is:

- 6.4% of a member's salary below the Year's Maximum Pensionable Earnings ("YMPE"), and
- 9.5% of a member's salary above the YMPE (8.75% in 2009, rising to 9.5% in 2010).

Once fully implemented, the new rate means that the average member will contribute approximately 7.8% of his or her yearly salary, up from 7.1% in 2008. These contributions are matched by the employer. OPP officers contribute an additional 2% to fund their 50/30 early retirement provision.

The increase is a proactive step that will strengthen the Plan's funding position over the long term.

Pensions paid

The amount of monthly pension payment flowing out of the Plan was higher in December 2008, relative to December 2007. Payments in December 2008 totalled $67.5 million, up 2.6% from $65.8 million in December 2007. A significant portion of this increase can be attributed to a 1.8% Escalation Factor (inflation protection adjustment) applied to pensions in pay and deferred pensions on January 1, 2008. The remainder can be attributed to a higher average pension for new pensioners.

Approximately 75% of the cash flow required to pay pensions comes from the Plan's Province of Ontario Special Debentures and real estate holdings; the remainder comes from contributions.

Financial review (continued)

Operating costs

Plan operating costs include:

- *investment fees* – these include investment management, transaction and custodial fees, which are deducted from total investment income and
- *operating expenses* – these include expenses incurred by OPB to operate and manage the Plan, including its investments.

The total cost of operating the Plan in 2008 – including investment fees and operating expenses – was $62.6 million, or 43 cents for every $100 of net assets. This compares to $59.2 million, or 37 cents per $100 of net assets, in 2007. The jump in cost relative to assets is due, in large part, to a decline in the market value of the Plan's assets, resulting from a historic market downturn.

During the past few years, OPB has made a significant investment aimed at enhancing the service experience for our clients and stakeholders – which has led to a number of important service improvements. Despite the cost of those improvements, our operating costs are still competitive with peer plans of our size. That said, we are mindful of the need to manage expenses – particularly in these tough economic times. To that end, we are taking a number of steps to contain costs, including limiting compensation, curtailing strategic initiatives, and cutting back on travel. Looking forward, we will continue to invest where appropriate to ensure clients and stakeholders receive optimum value. For example, although we have put a freeze on staffing levels outside our investment area, we will continue to augment our investment team to ensure we have the expertise and capacity needed to carry out our long-term investment strategy.

Investment fees

Investment fees were lower in 2008, reflecting a decline in the overall value of the Plan's assets. (All fees charged by investment management firms are based on asset value.) Fees for 2008 totalled $29.5 million, compared to $32.1 million in 2007 (20 cents per $100 in assets for both years). This reduction is largely attributable to a decline in the market value of Plan assets.

Investment fees, in proportion to assets, are expected to rise due to an ongoing investment in the internal and external expertise and capacity required to implement the Plan's broader investment strategy.

Operating expenses

Operating expenses for 2008 totalled $33.1 million, up from $27.0 million for 2007. This increase can be attributed to:

- a one-time expense related to the relocation of OPB's office. The office was relocated to provide the space and facilities needed to meet our long-term business and investment objectives,
- a $3.8 million investment in software and systems to support ongoing client service initiatives,
- an ongoing investment in the internal expertise and capacity required to implement the Plan's broader investment strategy, and
- a comprehensive funding study to assess whether contributions levels were adequate to fund the Plan going forward.

Five-year review

(in millions of dollars)	**2008**	2007	2006	2005	2004
Opening assets	**$ 16,379**	$ 16,421	$ 15,052	$ 14,113	$ 13,393
Investment income (loss)	**(1,552)**	307	1,703	1,317	1,147
Contributions	**487**	452	425	341	308
Transfers from other plans	**207**	82	85	94	82
	(858)	841	2,213	1,752	1,537
Pension payments	**810**	789	766	750	744
Terminations	**71**	67	56	43	56
Operating expenses	**33**	27	22	20	17
	914	883	844	813	817
Closing assets	**$ 14,607**	$ 16,379	$ 16,421	$ 15,052	$ 14,113

						Cumulative Since Inception
Annual rate of return	**(9.4%)**	2.1%	11.6%	9.6%	8.8%	8.5%

Actuaries' Opinion to the Directors of the Ontario Pension Board

Hewitt Associates was retained by the Ontario Pension Board ("OPB") to prepare the following actuarial valuations of the Public Service Pension Plan ("PSPP"):

- An actuarial valuation as at December 31, 2007 on a funding basis, as described in Note 7 of these consolidated financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.
- An actuarial valuation as at December 31, 2008 for purposes of these consolidated financial statements, prepared in accordance with the Canadian Institute of Chartered Accountants Handbook, Section 4100.

The actuarial valuation of the PSPP as at December 31, 2007 on a funding basis was based on membership data provided by OPB as at December 31, 2007.

Using the same data as provided by OPB for the funding valuation of the PSPP, we have prepared a valuation of the liabilities as of December 31, 2007 on the basis of the accounting methodology required by the Canadian Institute of Chartered Accountants Handbook, Section 4100, as disclosed in Note 7, and extrapolated the liabilities to December 31, 2008. The valuation as at December 31, 2008 was based on assumptions that reflect OPB's best estimates of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the Consolidated Statement of Changes in Accrued Pension Benefits.

We hereby certify that, in our opinion:

- The data provided to us by OPB as of December 31, 2007 are sufficient and reliable;
- The actuarial assumptions used are, in aggregate, appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and
- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

HEWITT ASSOCIATES

Allan H. Shapira
Fellow, Canadian Institute of Actuaries

February 27, 2009

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these consolidated financial statements are in accordance with Canadian generally accepted accounting principles. Of necessity, many amounts in the financial statements must be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records are maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout OPB.

The Board of Directors ("Board") is ultimately responsible for the consolidated financial statements of OPB. OPB's Audit Committee assists in this responsibility by reviewing the consolidated financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Mark J. Fuller
President & CEO

Karen Kojima, CA
Treasurer & Director, Finance

February 27, 2009

Auditors' Report to the Directors of the Ontario Pension Board

We have audited the consolidated statement of net assets available for benefits, and accrued pension benefits and excess (deficit) of Ontario Pension Board ("OPB") as at December 31, 2008 and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in excess (deficit) for the year then ended. These consolidated financial statements are the responsibility of OPB's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits, and accrued pension benefits and excess (deficit) of OPB as at December 31, 2008 and the changes in its net assets available for benefits, accrued pension benefits and excess (deficit) for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 27, 2009

Chartered Accountants
Licensed Public Accountants

Consolidated Statement of Net Assets Available for Benefits, and Accrued Pension Benefits and Excess (Deficit)

As at December 31 *(in thousands of dollars)*	**2008**	2007 (restated – Note 3)
Assets		
Investments (Note 4)	**$ 14,828,127**	$ 16,483,834
Investment-related receivables (Note 4)	**2,516,261**	1,731,161
Contributions receivable (Note 5)	**48,731**	40,564
Capital assets (Note 6)	**4,748**	1,211
Total assets	**17,397,867**	18,256,770
Liabilities		
Investment-related liabilities (Note 4)	**2,757,855**	1,833,294
Accounts payable and accrued charges	**20,722**	33,634
Income taxes withheld on pension payments	**10,625**	10,104
Contributions payable	**1,597**	1,176
Total liabilities	**2,790,799**	1,878,208
Net assets available for benefits	**$ 14,607,068**	$ 16,378,562
Accrued pension benefits and excess (deficit)		
Accrued pension benefits (Note 7)	**$ 17,311,935**	$ 16,315,393
Excess (deficit) (Note 8)	**(2,704,867)**	63,169
Total accrued pension benefits and excess (deficit)	**$ 14,607,068**	$ 16,378,562

See accompanying notes

On behalf of the Board:

M. Vincenza Sera
Chair

J. Urban Joseph
Vice-Chair

Consolidated Statement of Changes in Net Assets Available for Benefits

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007 (restated – Note 3)
Increase in net assets		
Net investment income (Note 9)	**$ –**	$ 306,960
Contributions (Note 10)	**487,534**	451,858
Transfers from other plans	**206,659**	81,754
Increase in net assets	**694,193**	840,572
Decrease in net assets		
Net investment loss (Note 9)	**1,551,919**	–
Pension payments	**810,133**	788,798
Termination payments and transfers	**70,553**	66,969
Operating expenses (Note 11)	**33,082**	27,016
Decrease in net assets	**2,465,687**	882,783
Net decrease in net assets for the year	**(1,771,494)**	(42,211)
Net assets, at beginning of year	**16,378,562**	16,420,773
Net assets, at end of year	**$ 14,607,068**	$ 16,378,562

See accompanying notes

Consolidated Statement of Changes in Accrued Pension Benefits

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007
Accrued pension benefits, at beginning of year	**$ 16,315,393**	$ 15,317,628
Increase in accrued pension benefits		
Interest on accrued pension benefits	**997,552**	931,575
Benefits accrued		
Service accrual	**468,871**	420,594
Transfer of service from other plans	**206,659**	81,754
Past service buybacks	**15,066**	13,296
Experience losses	**198,450**	134,755
Change in actuarial assumptions (Note 7)	**–**	271,558
Total increase	**1,886,598**	1,853,532
Decrease in accrued pension benefits		
Benefits paid	**880,686**	855,767
Change in actuarial assumptions (Note 7)	**9,370**	–
Total decrease	**890,056**	855,767
Net increase in accrued pension benefits	**996,542**	997,765
Accrued pension benefits, at end of year	**$ 17,311,935**	$ 16,315,393

Consolidated Statement of Changes in Excess (Deficit)

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007 (restated – Note 3)
Excess, at beginning of year	**$ 63,169**	$ 1,103,145
Net decrease in net assets available for benefits	**(1,771,494)**	(42,211)
Net increase in accrued pension benefits	**(996,542)**	(997,765)
Net decrease	**(2,768,036)**	(1,039,976)
Excess (deficit), at end of year	**$ (2,704,867)**	$ 63,169

See accompanying notes

Notes to the Consolidated Financial Statements

Note 1 Public Service Pension Act

Effective January 1, 1990, the Province of Ontario ("Province") enacted the *Public Service Pension Act*, 1990 ("*PSPAct*") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPP" or the "Plan") are stated in Schedule 1 to the *PSPAct*. Ontario Pension Board ("OPB") is the administrator of the PSPP.

Note 2 Description of PSPP

The following is a brief description of the PSPP. For more complete information, reference should be made to the *PSPAct*.

a) General
The PSPP is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the *PSPAct*. Under the PSPP, both the members and the employers make contributions. The PSPP is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a registered pension plan not subject to income taxes.

b) Contributions
The PSPP is integrated with the Canada Pension Plan ("CPP"). Member contributions are 6.2% of the salary on which contributions to CPP are made and 8% on the balance of salary. The employers contribute matching amounts.

Ontario Provincial Police ("OPP") officers are required to contribute to the PSPP an additional 2% of salary, which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to OPP officers.

Contributions from members and employers are remitted to the OPB. The portion of these contributions that exceeds *Income Tax Act* limits is transferred to the Province's Public Service Supplementary Benefits Account ("PSSBA").

c) Pensions
A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPP multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for integration with the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit. In the 1990's, the Province amended the PSPP to provide for an enhanced early retirement opportunity for members of the Plan whose age and service in the Plan total at least 80 years ("Factor 80"). The Factor 80 program ended on March 31, 2002. The PSPP was amended to permit those members who are deemed to be surplus by their employer to retire upon attaining Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The surplus program expired March 31, 2006. OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death Benefits
Upon the death of the member or pensioner, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate.

e) Disability Pensions
Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPP. The amount of the disability pension is dependent on years of credit and average salary.

f) Termination Payments
Members terminating employment before age 55 who are eligible for a deferred pension may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to transfer to another pension plan, or to purchase a life annuity.

g) Escalation of Benefits
Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

Note 3 Summary of Significant Accounting Policies

Basis of Presentation
The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and present the position of the PSPP as a separate entity independent of the employers and Plan members.

a) Use of Estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts on the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in excess (deficit) during the reporting period. Actual results could differ from those estimates.

b) Principles of Consolidation
The consolidated accounts of OPB include the accounts of its wholly-owned subsidiaries. All significant balances and transactions between OPB and its subsidiaries have been eliminated on consolidation.

c) Investments
Investments are stated at fair value, including accrued income. For traded investments, fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of investments is determined as follows:

(i) Short-term money market securities are recorded at cost, which, together with accrued interest or discount earned, approximates fair value.

(ii) Special Province of Ontario Debentures (the "Special Debentures"), bonds and real estate debt are valued at quoted market prices where available. For those instruments for which quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Equities are valued at quoted market prices at closing.

(iv) Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined annually by independent appraisals. The purchase price approximates the fair value of properties acquired and held for less than six months.

Investment transactions are recorded as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Interest and real estate income from operations are recognized on an accrual basis. Since real estate is valued on a fair value basis, depreciation and amortization are not recorded. Dividend income is recognized on the ex-dividend date. Revenue from real estate includes amounts earned from tenants related to lease agreements for its revenue-producing properties, including property tax and operating cost recoveries. Gains on the sale of properties are recognized when OPB has transferred to the purchaser the significant risks and rewards of ownership of the property, the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and collection of any additional consideration is reasonably assured. Income from participating mortgages is accrued at the rate stated in the instrument, and any participation income is recognized on an accrual basis. Net investment income also includes realized gains and losses from the sale of investments and unrealized gains and losses determined from the change in the difference between cost and fair value at year-end, including appraisal adjustments on real estate valuations and fair value adjustments on real estate debt. Transaction costs are expensed as incurred.

d) Accrued Pension Benefits
The value of accrued pension benefits is based on an actuarial valuation prepared by an independent firm of actuaries. This valuation uses the projected benefit method pro-rated on service and management's best estimate of various economic and non-economic assumptions.

e) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers into the Plan and purchases of prior service are recorded after cash is received and the transfer or purchase transaction is completed.

f) Pension Payments

Payments of pensions, refunds and transfers out of the Plan are recorded in the year in which they are made.

g) Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

h) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

i) Changes in Accounting Policies and Prior Period Adjustment

In 2008, OPB changed its accounting policy for the Special Debentures, whereby they are now valued at estimated fair values using discounted cash flows based on current market yields of comparable securities. This policy provides consistency with the actuarial valuation of the Plan. In prior years, the Special Debentures were valued at cost.

The Plan's actuarial funding valuation determines the value of the Special Debentures using discounted cash flows. Beginning with the funding valuation as at December 31, 2007, the discount rate is based on current market yields of comparable securities. Previously, the discount rate used was the assumed investment rate of return used in Plan funding valuations. Combined with the change in accounting for the Special Debentures, there is no longer a difference in the valuation of the Special Debentures for accounting and funding purposes. Consequently, the consolidated statements of net assets available for benefits, and accrued pension benefits and excess (deficit), and changes in excess (deficit) no longer present an actuarial asset value adjustment.

In 2008, OPB also changed its accounting policies for its participating mortgages, whereby the mortgages are now valued at estimated market price, and participation income is now recognized on an accrual basis. In prior years, the mortgages were recorded at cost, and the participation income was recorded when realized. The change in valuing the participating mortgages was to provide consistency with the actuarial valuation for determining accrued pension benefits of the Plan. The change in revenue recognition was implemented to reflect management's increased assurance that participation income is realizable, based on the increased value of the underlying properties and project net earnings to date, from which OPB's participation income is derived.

In addition, the real estate valuation for the prior years has been adjusted to reduce the fair value of real estate by $50.1 million and $45.1 million as at December 31, 2007 and December 31, 2006, respectively, and to reduce net investment income by $5.0 million in 2007. This real estate valuation adjustment reflects deferred costs that were previously not considered in recording the fair value adjustment.

These changes in accounting policies and prior period adjustment have been applied retrospectively, and the comparative financial statements for 2007 have been restated. The impact of the changes is as follows:

(in thousands of dollars)	**2008**	2007
Actuarial value of net assets available for benefits, before accounting changes	**$ 14,371,296**	$ 16,248,247
Change to fair value accounting for Special Debentures	**503,358**	543,642
Change in accounting for participating mortgages	**15,397**	15,941
Elimination of actuarial asset value adjustment	**(282,983)**	(379,153)
Real estate valuation adjustment	**–**	(50,115)
Net assets available for benefits, after accounting changes	**$ 14,607,068**	$ 16,378,562
Deficit, before accounting changes	**$ (2,940,639)**	$ (67,146)
Net adjustment to net assets available for benefits	**235,772**	130,315
Excess (deficit), after accounting changes	**$ (2,704,867)**	$ 63,169
Net increase (decrease) in net assets for the year, before accounting changes	**$ (1,730,667)**	$ 123,815
Change to fair value accounting for Special Debentures	**(40,284)**	(162,909)
Change in accounting for participating mortgages	**(543)**	1,919
Real estate valuation adjustment	**–**	(5,036)
Net decrease in net assets for the year, after accounting changes	**$ (1,771,494)**	$ (42,211)

In addition, the 2007 opening excess balance was increased by $188.2 million to $1,103.1 million as a result of these changes.

Effective January 1, 2008, OPB implemented the recommendations of the Canadian Institute of Chartered Accountants ("CICA") contained within CICA Handbook Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation". These new standards require expanded disclosures related to risks associated with financial instruments and risk management practices. These expanded disclosures are contained in Note 4.

Note 4 Investments

As at December 31 *(in thousands of dollars)*	2008 Fair Value	2008 Cost	2007 Fair Value	2007 Cost
			(restated – Note 3)	
Cash and short-term investments				
Canada	**$ 917,671**	**$ 917,917**	$ 930,843	$ 930,862
United States and other international	**77,889**	**77,429**	35,088	34,947
	995,560	**995,346**	965,931	965,809
Fixed income				
Special Province of Ontario Debentures	**2,686,017**	**2,182,659**	3,010,161	2,466,519
Bonds				
Canada	**2,884,486**	**2,877,508**	2,870,522	2,869,678
United States and other international	**949,348**	**838,011**	785,290	802,736
	6,519,851	**5,898,178**	6,665,973	6,138,933
Equities				
Canada	**1,611,976**	**1,603,983**	2,153,459	1,372,607
United States	**1,939,235**	**2,200,432**	2,407,898	2,479,347
Other international	**1,526,732**	**2,003,015**	1,948,138	1,833,275
	5,077,943	**5,807,430**	6,509,495	5,685,229
Real estate	**2,191,469**	**1,883,707**	2,299,920	1,823,140
Participating mortgages	**43,304**	**27,906**	42,515	26,574
Total investments	**14,828,127**	**14,612,567**	16,483,834	14,639,685
Investment-related receivables				
Pending trades	**16,415**	**16,415**	8,244	8,244
Forward exchange contracts	**2,499,846**	**2,467,810**	1,722,917	1,731,184
	2,516,261	**2,484,225**	1,731,161	1,739,428
Investment–related liabilities				
Real estate debt	**124,104**	**113,332**	127,294	124,505
Pending trades	**21,717**	**21,717**	8,999	8,999
Forward exchange contracts	**2,612,034**	**2,467,810**	1,697,001	1,731,184
	2,757,855	**2,602,859**	1,833,294	1,864,688
Net investments	**$ 14,586,533**	**$ 14,493,933**	$ 16,381,701	$ 14,514,425

Notes to the Consolidated Financial Statements (continued)

a) Asset Mix

Investments are allocated to and maintained in major asset classes within acceptable ranges, with target allocation as follows:

	Effective December 4, 2007 Target	Prior to December 4, 2007 Target
Cash and short-term	2%	5%
Bonds	38%	45%
Total interest-bearing instruments	40%	50%
Equity		
Canadian	11%	15%
International	36%	25%
Total equity	47%	40%
Canadian real estate	13%	10%
Total equity and real estate	60%	50%

Investments in certain other asset classes are allowable, subject to Board approval.

b) Financial Instruments Risk

The Plan is subject to financial risks as a result of its investing activities that could impact its cash flows, income, and assets available to meet benefit obligations. These risks include market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. OPB manages these risks in accordance with its Statement of Investment Policies and Procedures, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

Market Risk – Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. Market risk is comprised of the following:

(i) Interest Rate Risk – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by short-term changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-sensitive investments with other investments. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Fund's modified duration of 4.74 years at December 31, 2008, a parallel shift in the yield curve of +/–1% would result in an impact on the net investments of $308.9 million, with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of Fixed Income Maturities for further information.

(ii) Foreign Currency Risk – Foreign currency exposure arises from the Plan holding foreign exchange denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. The Plan hedges a portion of its foreign currency exposure through the use of foreign exchange forward contracts, which are accounted for at fair value. Total currency exposure, impact of foreign exchange forward contracts and the net currency exposure are as follows:

As at December 31 *(in thousands of dollars)*	**2008** Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure	2007 Net Exposure
United States dollar	**$ 2,060,015**	**$ 323,409**	**$ (652,865)**	**$ 1,730,559**	$ 2,584,670
Euro	**1,318,478**	**345,069**	**(1,265,485)**	**398,062**	577,177
British pound sterling	**355,897**	**32,125**	**(237,065)**	**150,957**	219,210
Japanese yen	**139,929**	**–**	**(463)**	**139,466**	242,163
Swiss franc	**140,053**	**6,377**	**(47,373)**	**99,057**	106,056
Other	**59,646**	**–**	**(8,239)**	**51,407**	94,559
Total foreign	**4,074,018**	**706,980**	**(2,211,490)**	**2,569,508**	3,823,835
Canadian dollar	**10,624,703**	**1,792,866**	**(400,544)**	**12,017,025**	12,557,866
	$ 14,698,721	**$ 2,499,846**	**$ (2,612,034)**	**$ 14,586,533**	$ 16,381,701

The impact of a 1% absolute change in foreign exchange rates compared to the Canadian dollar, holding all other variables constant, is 1% of the net exposure of the impacted currency, or $25.7 million in total for all foreign currencies as at December 31, 2008.

(iii) Other Price Risk – Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An absolute change in the fair value of OPB's investments which are exposed to other price risk will have a direct proportional impact on the fair value of the investments. OPB's investments in equities have the most significant exposure to other price risk. The impact of a 1% absolute change in the price of an investment, holding all other variables constant, is 1% of the net exposure of the impacted investment, or $50.8 million, as at December 31, 2008

Credit Risk – The Plan is exposed to the risk of loss arising from a default or insolvency of a securities issuer. As at December 31, 2008, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at $2.686 billion (2007 – $3.010 billion) and bonds and short-term investments valued at $645 million (2007 – $408 million). At December 31, 2008, 96% (2007 – 98%) of bonds held had at least an "A" rating.

Liquidity Risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. Cash sources include investment income, proceeds from the sales of investments, and member and employer contributions. The largest sources of cash during the year were the interest and principal payments from the Special Debentures, which provided $539 million (2007 – $536 million) to the Plan.

c) Cash and Short-Term Investments

As at December 31 *(in thousands of dollars)*	**2008** **Fair Value**	**Cost**	2007 Fair Value	Cost
Canada				
Cash	**$ 4,071**	**$ 4,071**	$ 4,554	$ 4,554
Short-term notes and treasury funds	**910,529**	**910,775**	907,547	907,566
Term deposits	**1,102**	**1,102**	14,435	14,435
Accrued interest	**1,969**	**1,969**	4,307	4,307
	$ 917,671	**$ 917,917**	$ 930,843	$ 930,862
United States and other international				
Cash	**$ 4,921**	**$ 4,921**	$ 5,791	$ 5,791
Short-term notes and treasury funds	**24,051**	**23,591**	16,100	16,025
Term deposits	**48,907**	**48,907**	13,131	13,065
Accrued interest	**10**	**10**	66	66
	$ 77,889	**$ 77,429**	$ 35,088	$ 34,947

d) Fixed Income and Equities

The Special Debentures are recorded at an estimated market value of $2.686 billion (2007 – $3.010 billion) by discounting cash flows based on year-end market yields of comparable bonds. There are currently six Special Debentures maturing over the next six years with a weighted average interest rate of 11.56% (2007 – 11.70%).

Included in the fixed income and equities totals are the following amounts related to pooled funds:

As at December 31 *(in thousands of dollars)*	**2008** **Fair Value**	**Cost**	2007 Fair Value	Cost
Bonds – Canada	**$ –**	**$ –**	$ 352,572	$ 365,424
Equities – Canada	**110,238**	**165,605**	121,018	62,979
Equities – United States	**1,291**	**1,249**	2,756	2,841
Equities – Other international	**252,695**	**333,484**	75,487	94,826

See the schedules of Fixed Income Maturities and of Investments over $20 Million for further information.

e) Real Estate

As at December 31 *(in thousands of dollars)*	**2008** **Fair Value**	**Cost**	2007 Fair Value	Cost
Real estate properties	**$ 2,194,793**	**$ 1,887,031**	$ 2,302,364	$ 1,825,584
Other assets, net	**(3,324)**	**(3,324)**	(2,444)	(2,444)
Total assets	**2,191,469**	**1,883,707**	2,299,920	1,823,140
Debt on real estate properties	**(124,104)**	**(113,332)**	(127,294)	(124,505)
Net investment in real estate	**$ 2,067,365**	**$ 1,770,375**	$ 2,172,626	$ 1,698,635

Debt includes mortgages and other secured debt with various terms to maturity up to 2018 and a weighted average interest rate of 6.55% (2007 – 6.56%), against which specific real estate properties are pledged as collateral.

The following schedule shows the total principal payments related to this debt:

For the Year Ended December 31 *(in thousands of dollars)*		
2009	$	33,735
2010		7,646
2011		16,843
2012		2,551
2013		23,095
2014 and thereafter		29,462

f) Securities Lending
At year-end, $835 million (2007 – $1.536 billion) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with securities that had credit ratings equal to or better than the securities loaned. OPB does not employ cash collateral in its securities lending program. At year-end, $896 million of securities were held as collateral, providing a 7.3% cushion against market and credit risks.

Note 5 Contributions Receivable

As at December 31 *(in thousands of dollars)*		**2008**		2007
Members	**$**	**19,498**	$	16,110
Employers		**29,233**		24,454
Total contributions receivable	**$**	**48,731**	$	40,564

Note 6 Capital Assets

As at December 31 *(in thousands of dollars)*		**Cost**		**Accumulated Depreciation**		**2008 Net Book Value**		2007 Net Book Value
Computer equipment	**$**	**2,182**	**$**	**1,004**	**$**	**1,178**	$	670
Furniture and fixtures		**2,327**		**190**		**2,137**		397
Leasehold improvements		**1,433**		**–**		**1,433**		144
Total capital assets	**$**	**5,942**	**$**	**1,194**	**$**	**4,748**	$	1,211

Note 7 Accrued Pension Benefits

a) Accounting Basis
The value of accrued pension benefits of $17.312 billion (2007 – $16.315 billion) is an estimate of pension benefit obligations accrued to date for members and pensioners. The accounting valuation uses the projected benefit method (pro-rated on service), which is required under Canadian generally accepted accounting principles. Under this method, the accrued pension benefits are based on service earned up to the reporting date. The accrued pension benefits as at December 31, 2008 are computed by extrapolating data used for the December 31, 2007 funding valuation.

Actuarial Assumptions – The actuarial assumptions used in determining the value of accrued pension benefits reflect management's best estimate of future economic and non-economic events. The primary economic assumptions, as at December 31, are:

	2008	2007
Investment return	**6.15%**	6.15%
Inflation	**2.50%**	2.50%
Real rate of return	**3.65%**	3.65%
Salary increases	**3.50% +promotional scale**	3.50% +promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. In 2008, changes were made in the assumptions on retirement rates for certain employee groups and the methodology for applying retirement, termination and pre-retirement mortality rates.

b) Funding Basis

The funding valuation of the PSPP is based on methods required under the *PSPAct* and the *Pension Benefits Act (Ontario) ("PBA")*. The *PBA* and the *Income Tax Act* require that an actuarial funding valuation of the PSPP be completed and filed with the regulatory authorities, at least every three years. The most recent filing was a funding valuation as at December 31, 2007 prepared by Hewitt Associates, which disclosed a funding shortfall of $37 million.

Changes prescribed under the *PBA* require minimum funding requirements to be determined using the unit credit actuarial cost method. As a result, the actuarial cost method used for the December 31, 2007 funding valuation was changed from the aggregate cost method to the unit credit cost method. The change transferred a portion of the past service cost incurred by the Plan into current service cost, resulting in additional employer contributions that have been reclassified as employer current service contributions in addition to the matching contributions prescribed by the *PSPAct*. These additional contributions are included in Note 10.

The funding valuation is used as a basis for funding and Plan design decisions.

Note 8 Excess (Deficit)

In these financial statements, the amount by which net assets available for benefits is less than the accrued pension benefits is represented by the deficit, which as at December 31, 2008 was $2.705 billion (2007 – $63 million excess).

Differences between the accounting and funding valuation results may arise due to such factors as variances between estimated and actual data, economic and demographic assumptions or conditions, actuarial methodology, and subsequent events.

Note 9 Net Investment Income (Loss)

For the Year Ended December 31 *(in thousands of dollars)*	**Investment Income[1]**	**Realized Gain (Loss)**	**Unrealized Gain (Loss)[2]**	**2008 Total**	Investment Income[1]	Realized Gain (Loss)	Unrealized Gain (Loss)[2]	2007 Total
Cash and short-term investments								(restated – Note 3)
Canada	**$ 32,429**	**$ 10,579**	**$ (227)**	**$ 42,781**	$ 33,818	$ (3,698)	$ (663)	$ 29,457
United States and other international	**1,987**	**3,355**	**(137,785)**	**(132,443)**	4,967	27,972	59,512	92,451
	34,416	**13,934**	**(138,012)**	**(89,662)**	38,785	24,274	58,849	121,908
Fixed income								
Special Province of Ontario Debentures	**255,056**	**–**	**(40,284)**	**214,772**	288,749	–	(162,909)	125,840
Bonds								
Canada	**142,415**	**(16,314)**	**6,134**	**132,235**	139,861	(12,260)	(36,400)	91,201
United States and other international	**38,845**	**3,650**	**128,783**	**171,278**	27,820	2,775	(45,463)	(14,868)
	436,316	**(12,664)**	**94,633**	**518,285**	456,430	(9,485)	(244,772)	202,173
Equities								
Canada	**43,789**	**8,789**	**(772,859)**	**(720,281)**	44,769	323,062	(158,724)	209,107
United States	**56,526**	**(358,917)**	**(189,748)**	**(492,139)**	57,164	4,037	(385,465)	(324,264)
Other international	**66,192**	**(187,684)**	**(591,146)**	**(712,638)**	61,298	173,406	(318,205)	(83,501)
	166,507	**(537,812)**	**(1,553,753)**	**(1,925,058)**	163,231	500,505	(862,394)	(198,658)
Real estate	**150,249**	**–**	**(177,001)**	**(26,752)**	147,660	4,529	56,891	209,080
Participating mortgages	**1,332**	**–**	**(543)**	**789**	2,685	–	1,919	4,604
Total investment income (loss)	**$ 788,820**	**$ (536,542)**	**$(1,774,676)**	**$(1,522,398)**	$ 808,791	$ 519,823	$ (989,507)	$ 339,107
Investment fees				**(29,521)**				(32,147)
Net investment income (loss)				**$(1,551,919)**				$ 306,960

[1] Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, and real estate operating income.

[2] Unrealized gain (loss) on cash and short-term investments includes foreign exchange contracts.

a) Interest Income

For the Year Ended December 31 *(in thousands of dollars)*		**2008**		2007
Cash and short-term investments				
Canada				
Cash	**$**	**2,984**	$	1,924
Short-term notes and treasury funds		**27,944**		30,867
Term deposits		**1,501**		1,027
	$	**32,429**	$	33,818
United States and other international				
Cash	**$**	**127**	$	185
Short-term notes and treasury funds		**323**		1,830
Term deposits		**1,537**		2,952
	$	**1,987**	$	4,967

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds. Canadian bond interest includes $14.164 million (2007 – $15.473 million) from pooled bond funds.

b) Dividend Income

Canadian dividend income includes $817 thousand (2007 – $2.473 million) from pooled equity funds. United States dividend income includes $59 thousand (2007 – $26 thousand) from pooled equity funds. Other international dividend income includes $7.223 million (2007 – $8.786 million) from pooled equity funds.

c) Real Estate

The following is selected information from OPB's real estate operations:

For the Year Ended December 31 *(in thousands of dollars)*	2008	2007 (restated – Note 3)
Revenue		
Rental	$ 259,622	$ 253,042
Other income	6,123	5,975
	265,745	259,017
Expenses		
Operating expenses	94,609	91,162
General, administrative and other	14,249	13,451
	108,858	104,613
Operating income, before interest	156,887	154,404
Interest expense	7,838	8,232
Net operating income	149,049	146,172
Unrealized gain (loss)		
Appraisal adjustment	(169,018)	56,734
Fair value adjustment on debt	(7,983)	889
	(177,001)	57,623
Realized gain	–	2,233
Transaction costs	(375)	(412)
Net income (loss)	$ (28,327)	$ 205,616

d) Investment Fees

For the Year Ended December 31 *(in thousands of dollars)*	2008	2007
Portfolio fund management	$ 17,428	$ 18,533
Transaction costs	7,787	8,873
Custody	1,714	2,181
Real estate	2,408	1,880
Consulting	184	680
	$ 29,521	$ 32,147

Transaction costs include commissions and fees on trades. Additional transaction costs included in real estate expense total $782 thousand (2007 – $571 thousand).

Note 10 Contributions

For the Year Ended December 31 *(in thousands of dollars)*		**2008**		2007
Members				
Current service	**$**	**208,436**	$	191,376
Prior service		**11,729**		8,825
		220,165		200,201
Employers				
Current service				
Regular contributions		**208,263**		191,953
PSSBA transfer		**(10,764)**		(10,177)
For members receiving Long Term Income Protection benefits		**6,424**		6,020
		203,923		187,796
Prior service		**3,337**		4,471
Special Payments		**3,757**		59,390
Additional current service		**56,352**		–
		267,369		251,657
Total contributions	**$**	**487,534**	$	451,858

The contribution requirements are set out in the *PSPAct* and summarized in Note 2(b).

Members who are receiving benefits on Long Term Income Protection ("LTIP") have their contributions to the PSPP paid by their employers.

The Province contributed $3.757 million in Special Payments in 2008 towards the funding shortfall identified in the filed funding valuation as at December 31, 2007 (2007 – $59.390 million as identified in the filed funding valuation as at December 31, 2005). In 2008, the Province made $56.352 million in additional employer current service contributions.

Note 11 Operating Expenses

For the Year Ended December 31 *(in thousands of dollars)*		**2008**		2007
Staffing	**$**	**16,756**	$	13,327
Information technology and project management		**6,309**		5,448
Office premises and operations		**3,767**		3,470
Professional services		**2,947**		2,106
Staff development and support		**1,137**		964
Communication		**769**		626
Depreciation		**815**		568
Audit		**394**		338
Board remuneration		**188**		169
Total operating expenses	**$**	**33,082**	$	27,016

Fees for services provided by the firm of Ernst & Young LLP include:

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007
Audit and related services provided to Ontario Pension Board	**$ 98**	$ 82
Audit and related services provided to OPB Realty Inc.	**141**	123
Total fees	**$ 239**	$ 205

Note 12 Compensation

Compensation to the senior management team includes base salary, incentives, insured benefits and supplementary retirement incentives. Compensation totals, excluding retirement benefits, for the CEO, President and all Senior Vice-Presidents:

For the Year Ended December 31	Year	Base Salary	Incentives[1]	Taxable Benefits and Allowances[2]	Total
Donald D. Weiss, CEO	2008	$ 376,568	$ 117,985	$ 16,470	$ 511,023
	2007	358,672	128,250	16,188	503,110
	2006	333,742	125,625	15,915	475,282
Mark J. Fuller, President	2008	398,321	141,300	11,403	551,024
	2007	332,648	140,242	11,304	484,194
	2006	299,032	112,551	13,561	425,144
Linda J. Bowden, Senior Vice-President, Operations	2008	314,224	95,854	10,078	420,156
	2007	258,617	85,180	10,009	353,806
	2006	232,976	87,715	9,965	330,656
R. Paul Edmonds, Senior Vice-President, Corporate Affairs & General Counsel[3]	2008	208,775	66,055	11,617	286,447
Peter Shena, Senior Vice-President, Stakeholder Relations and Pension Policy	2008	258,995	75,098	13,513	347,606
	2007	201,257	55,548	5,175	261,980
	2006	189,256	57,000	2,615	248,871
Anne-Marie Thomas, Senior Vice-President, Investments[4]	2008	321,586	95,854	15,194	432,634
	2007	297,490	97,960	11,357	406,807
	2006	82,213	36,231	2,833	121,277

[1] Incentives earned in 2007 and 2008 are paid in March of the following year.

[2] Includes life insurance, car allowance and parking.

[3] Start date of March 17, 2008.

[4] Start date of September 18, 2006.

Compensation for the CEO and the President is approved by the Board. Compensation for the Senior Vice-Presidents is approved by the Human Resources Committee of the Board. Incentives are performance-based.

The above-noted individuals are entitled to benefits from both the PSPP and the PSSBA.

The CEO, the President, the Senior Vice-President, Operations, and the Senior Vice-President, Investments also participate in a Supplemental Executive Retirement Plan ("SERP") that provides additional retirement benefits equal to 1.5% of the best five-year average annual base salary for each year of service with the Ontario Pension Board. All the other provisions of the SERP mirror the provisions of the PSPP, including the exclusion of incentives from the pension entitlement calculation. The SERP is an unregistered arrangement that is non-contributory and not funded.

Note 13 Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in 2008.

Fixed Income Maturities

As at December 31 *(in thousands of dollars)*	2008 **Fair Value**	2008 **Effective Yield %**	2007 Fair Value	2007 Effective Yield %
Special Province of Ontario Debentures				
0–1 year	**$ 229,608**	**13.02**	$ 219,329	12.89
1–5 years	**1,807,031**	**10.38–13.33**	1,581,112	10.38–13.33
5–10 years	**526,290**	**11.19**	1,069,575	11.10–11.19
Accrued interest	**123,088**		140,145	
	2,686,017		3,010,161	
Bonds				
Canada				
0–1 year	**177,257**	**3.12–7.12**	92,770	3.55–5.71
1–5 years	**977,997**	**1.72–8.52**	830,292	3.60–8.27
5–10 years	**825,639**	**2.85–9.03**	730,911	3.89–7.53
>10 years	**877,362**	**2.03–10.50**	842,535	4.31–6.89
PH&N Bond Fund: 1–29 years	**–**	**–**	352,572	5.53
Accrued interest	**26,231**		21,442	
	2,884,486		2,870,522	
United States and other international				
0–1 year	**894**	**1.67**	–	–
1–5 years	**404,346**	**2.88–5.16**	351,220	2.87–5.94
5–10 years	**292,344**	**3.40–11.32**	261,527	3.68–6.82
>10 years	**232,694**	**3.97–13.38**	158,577	4.33–6.70
Accrued interest	**19,070**		13,966	
	949,348		785,290	
	$ 6,519,851		$ 6,665,973	

Investments over $20 Million

As at December 31, 2008
(in thousands of dollars)

	Maturities	Coupon %	Fair Value[1]
Cash and short-term investments			
Canada			
Government of Canada			$ 261,808
Province of Ontario			176,048
Canadian Imperial Bank of Commerce			71,053
Toronto-Dominion Bank			70,125
Bon TRQC			67,177
Alberta Treasury			54,504
Bank of Nova Scotia			41,186
Province of New Brunswick			34,940
Royal Bank of Canada			27,798
Province of Manitoba			27,714
Province of Newfoundland and Labrador			24,891
Other international			
Barclays Bank PLC			48,906
Fixed income			
Special Province of Ontario Debentures	2009–2014	10.38–13.33	$ 2,562,929
Bonds			
Canada			
Government of Canada	2009–2041	1.71–10.35	$ 710,255
Province of Ontario	2009–2039	1.74 –9.50	468,784
Province of Quebec	2009–2036	4.50–6.25	141,254
Bank of Nova Scotia	2009–2056	3.10–7.31	126,283
Royal Bank of Canada	2010–2053	4.45–7.10	123,708
Toronto-Dominion Bank	2011–2106	4.25–7.24	97,591
Bank of Montreal	2011–2023	4.55–6.17	90,524
Canadian Imperial Bank of Commerce	2009–2018	3.75–5.15	80,813
Province of Manitoba	2009–2038	4.25–6.50	62,771
Merrill Lynch	2011–2037	4.17–7.77	59,662
Wells Fargo Financial	2011–2015	4.33–6.05	55,735
Manulife Financial Corporation	2012–2041	5.06–6.70	43,266
Province of British Columbia	2009–2037	4.70–8.75	41,727
Sun Life Financial Inc.	2011–2036	4.80–6.87	40,230
Power Corporation	2011–2067	5.69–6.75	31,460
Greater Toronto Airports Authority	2011–2034	4.40–7.10	30,909
Province of Saskatchewan	2014–2040	4.25–6.40	30,007
HSBC	2010–2021	2.90–7.78	29,185
Enbridge Inc.	2010–2036	3.95–7.20	28,686
EnCana Corporation	2012–2018	4.30–5.80	25,502
Thomson Reuters	2011–2015	5.20–6.85	25,430
GE Capital	2011–2037	4.38–6.25	25,345
Ontario Hydro	2014–2026	8.25–10.00	24,939
Loblaw Companies Limited	2010–2036	5.40–7.10	23,397
Union Gas	2010–2038	4.64–7.20	22,215
Province of New Brunswick	2010–2039	4.45–6.75	20,386

Investments over $20 Million (continued)

As at December 31, 2008

(in thousands of dollars)	Maturities	Coupon %	Fair Value[1]
United States and other international			
Government of France	2012–2025	3.00–6.00	372,729
U.K. Treasury	2012–2020	4.75–5.00	87,575
Federal Republic of Germany	2013–2034	4.50–5.63	84,711
Kingdom of Netherlands	2012	5.00	83,785
Kingdom of Belgium	2015	8.00	66,353
Kfw Bankengruppe	2010	4.88	39,910
J.P.Morgan	2015–2021	3.88–5.06	26,832
Morgan Stanley	2012–2017	2.58–4.90	26,074
Santander International Debt	2011	3.18	22,953
Bear Stearns	2009–2014	3.85–5.45	21,079
Real estate			
OPB Realty Inc. (holding company, 100% owned)			$ 2,177,865
Participating mortgages	2019	5.00	36,253

(in thousands of dollars)	Shares/Units[2]	Fair Value[1]
Equities		
Canada		
EnCana Corporation	1,645	$ 93,689
BGICL S&P/TSX Composite Index CL A	2,546	93,551
Royal Bank of Canada	2,425	87,531
Toronto-Dominion Bank	1,742	75,706
Bank of Nova Scotia	2,082	69,364
Rogers Communications Inc.	1,665	60,919
Manulife Financial Corporation	2,901	60,333
Potash Corporation of Saskatchewan, Inc.	645	57,796
Nexen Inc.	2,379	51,024
Barrick Gold Corporation	1,061	47,454
Canadian Natural Resources Limited	962	46,881
TransCanada Corp.	1,346	44,632
Canadian National Railway Company	982	43,969
Shoppers Drugs Mart Corporation	853	40,967
Shaw Communications Inc.	1,838	39,723
Canadian Imperial Bank of Commerce	698	35,676
Power Corporation of Canada	1,510	35,025
Goldcorp Inc.	812	31,177
Suncor Energy Inc.	1,264	29,975
Talisman Energy Inc.	2,315	28,196
BCE Inc.	1,117	28,083
SNC-Lavalin Group Inc.	618	24,538
Research In Motion Limited	445	22,014
Thomson Reuters Corporation	587	20,892

As at December 31, 2008
(in thousands of dollars)

	Shares/Units[2]	Fair Value[2]
United States		
Exxon Mobil Corp.	805	79,376
Chevron Corporation	666	60,823
Johnson & Johnson	713	52,677
Procter & Gamble Co.	645	49,244
Pfizer Inc.	1,977	43,222
General Electric Co.	1,902	38,029
AT&T Inc.	1,072	37,702
ConocoPhillips	532	34,025
Colgate-Palmolive Company	402	34,015
Cisco Systems, Inc.	1,541	31,003
Microsoft Corp.	1,264	30,334
CVS Corp.	808	28,664
Wal-Mart Stores Inc.	410	28,346
Tim Hortons Inc.	773	26,969
PepsiCo, Inc.	398	26,894
Abbott	393	25,902
McDonald's Corporation	333	25,538
Philip Morris International	465	24,993
JPMorgan Chase & Co.	608	23,677
3M Company	319	22,640
Wells Fargo & Co.	616	22,408
Kimberly-Clark Corporation	343	22,327
Emerson Electric Co.	467	21,092
Hewlett Packard	453	20,288
Other international		
Leith Wheeler International Pool Fund	12,494	137,455
BGICL MSCI EAFE Index CL A	13,516	115,240
Roche Holdings	241	45,409
Nestlé	760	36,656
Vodafone Group Plc	14,383	35,485
Total S.A.	526	35,104
E.ON AG	542	26,452
Bayer	330	23,520
Vivendi	560	22,360
Siemens	246	22,307
BNP Paribas	387	20,099

[1] Excludes accrued income; includes guaranteed instruments issued by subsidiaries/agencies.

[2] Includes all share classes and American Depository Receipts.

Real Estate Properties

As at December 31, 2008 *(in thousands of square feet)*	Location	Area
Retail		
Hillside Centre	Victoria	429
Brentwood Town Centre	Burnaby	547
Lougheed Town Centre	Burnaby	657
Aberdeen Village Centre	Kamloops	104
Christy's Corner	Edmonton	111
Marlborough Mall	Calgary	533
Portland Place	Calgary	149
Gaetz Avenue Crossing	Red Deer	177
St. Vital Centre	Winnipeg	929
Pen Centre	St. Catharines	1,036
Pickering Town Centre	Pickering	896
Carlingwood Shopping Centre	Ottawa	526
Halifax Shopping Centre	Halifax	527
Halifax Shopping Centre Annex	Halifax	419
2003 Gottingen Street	Halifax	25
215 Chain Lake Drive	Halifax	72
West End Mall	Halifax	172
		7,309
Office		
Marlborough Professional Bldg.	Calgary	51
One Queen Street East/20 Richmond Street East	Toronto	502
Halifax Office Complex	Halifax	114
		667
Industrial		
Mississauga Industrial	Mississauga	2,885
Burnside Industrial Park	Halifax	498
Wright Place	Halifax	67
		3,450
Land held for development		880
Total properties		12,306

Directory of key personnel

Officers

Mark J. Fuller[1]
President and Chief Executive Officer

Linda J. Bowden
Senior Vice-President, Operations

Paul Edmonds
Senior Vice-President, Corporate Affairs, and General Counsel

Peter Shena
Senior Vice-President, Stakeholder Relations and Pension Policy

Anne-Marie Thomas
Senior Vice-President, Investments

Duncan D. Webb[2]
Senior Vice-President, Finance

Thomas Choi
Vice-President, IT Services and Enterprise Solutions

1. Mark Fuller was appointed as President on January 1, 2008 and as President and Chief Executive Officer on January 1, 2009. In late 2007, Don Weiss announced plans to retire from his position as President and Chief Executive Officer. He stepped down as President on December 31, 2007 and as Chief Executive Officer on December 31, 2008.
2. Duncan Webb was appointed Senior Vice-President, Finance, on January 19, 2009.

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