



INFORMED DECISIONS & LONG-TERM THINKING
for service, investments & funding

Highlights

- Fund earned a 14.3% rate of return
- Net assets rose to \$107.5 billion in 2010, from \$96.4 billion
- Despite strong investment returns, the plan has a \$17.2 billion funding shortfall
- Shortfall must be resolved no later than 2012
- Detailed information available at otpp.com



Jim Leech
President and CEO

Message from the CEO

Strong investment returns

The investment fund performed well beyond expectations in 2010, earning an impressive 14.3% rate of return. Investment income totalled \$13.3 billion and net assets rose to \$107.5 billion.

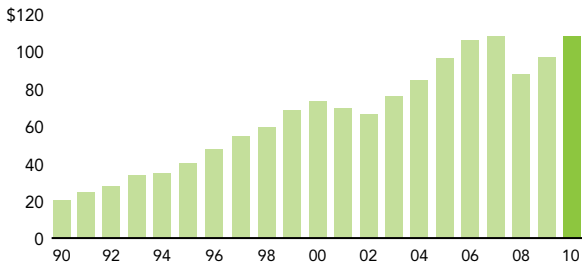
Our rate of return beat the fund's composite benchmark of 9.8%, providing \$4.0 billion in extra returns above standard market performance (which are what we call value-added returns). Our benchmark reflects the performance of markets, such as the S&P/TSX Composite Index and S&P 500, in which we invest. These extra returns exceeded the combined annual contributions by members and the Ontario government last year.

I congratulate our investment team for staying true to investment fundamentals and successfully pursuing our long-term strategy. They continue to take appropriate risks to earn returns while seeking the best diversification to meet the plan's long-term needs.

(Continued on page 2)

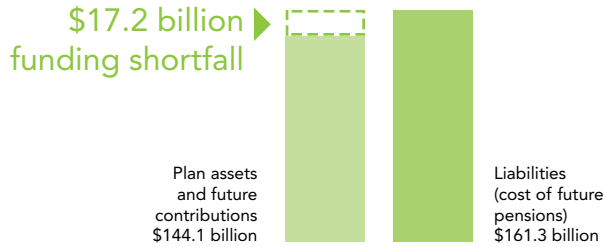
NET ASSETS

(for the year ended December 31) (\$ billions)



PRELIMINARY FUNDING VALUATION

(as at January 1, 2011)



Net assets have grown significantly, but pension liabilities (the cost of future pensions) are growing faster, causing funding shortfalls.

Meeting members' service needs

Plan members continued to rate our services highly, giving us a 9.0 out of 10 on the Quality Service Index (QSI). To maintain high member satisfaction, we introduced a simpler web-based process to buy back pension credit, and implemented changes to the plan's working-after-retirement rules.

Funding challenges continue

While the plan's assets have performed well, the most recent preliminary funding valuation shows a significant funding shortfall of \$17.2 billion.

The recent period of low real interest rates, early retirement and longer life expectancy are the primary drivers of the increased total cost of future pensions. As well, we will continue to absorb the 2008 investment loss through 2012. As a result of these factors, funding challenges are expected to continue into next year and beyond.

In light of recurring plan funding shortfalls, representatives from the Ontario Teachers' Federation (OTF), the Ontario government and plan management participated in the Sustainability Working Group to consider potential changes to safeguard the pension plan's viability and affordability over the long term. (See pages 4–5 for more information.)

Given the size of the shortfall today and the fundamental challenges ahead, adjustments will have to occur to close the funding gap. The OTF and the government – the plan sponsors – have a few broad options available to resolve shortfalls, as noted on page 4.

The OTF and the government must resolve the current shortfall no later than 2012 in order to file a balanced funding valuation with the pension regulator. They are determining whether resolving it this year would be more advantageous for plan members. No decisions have been made yet on how the current shortfall will be addressed. We are committed to working with the plan sponsors to seek a fair and equitable funding solution.

Doing everything we can to operate efficiently

Many factors that impact the plan's funding status are beyond our control, such as demographics, market performance and real interest rates. But that does not relieve us of our responsibility to do everything we can to operate efficiently and achieve the plan's long-term goals.

We focus on the things we can control: how well we manage assets, how much risk we take and how efficiently we operate. In 2010, we began implementing changes to our long-term investment strategy to better meet the plan's needs as it continues to mature. We improved our information and risk systems to help us make better investment decisions, and we initiated a multi-year Operational Excellence program to increase efficiency and coordination as we implement large, cross-departmental projects.

I thank all employees and board members for their commitment to continuous improvement, to risk consciousness and to being leaders in the pension industry. Finally, I commend the plan sponsors for their attentiveness to funding sustainability issues, and their commitment to helping members understand the plan's funding challenges.

Jim Leech, MBA, ICD.D
President and Chief Executive Officer



Rosemarie McClean,
MBA, ICD.D, CMA
Senior Vice-President,
Member Services

Member Services performance

We strive to provide outstanding and personalized service that cost-effectively delivers the pension information members need at the right time in their careers.

9 out of 10

Quality Service Index score

Ranked #2

for service among global peers

Service quality

Plan members continue to show a high level of satisfaction with pension services through our Quality Service Index (QSI). We measure satisfaction based on quarterly surveys with members conducted by a third party. Members are asked to rate our services on a scale of zero to 10.

We participate in a global ranking of pension plans by CEM Benchmarking. We ranked second out of 15 peer pension plans and placed fourth overall for service in the most recent global survey. We have consistently placed among the industry leaders.

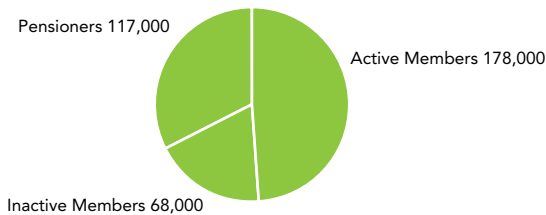
The cost per member served in 2010 was \$146 compared to \$130 in 2009. Costs have increased due to several factors, including the increasing number of plan members, expansion of services, plan changes and the need for more highly-skilled IT staff. We maintained costs within our allocated budget in 2010.

More members, more service

The total number of plan members grows every year and our interactions with members continue to increase.

MEMBER PROFILE

(as at December 31, 2010)



The number of pensioners grew by 3,000 in 2010. Active members (working teachers) also increased by 3,000.

382,000

Number of member interactions our systems handled in 2010, more than 1,000 a day on average

177,000

Personal service requests completed for members

205,000

Member sessions on our secure website, *iAccess*TM Web

65%

Percentage of member requests completed on the same day

> *iAccess*TM Web is a secure website giving members instant access to their personal pension records. Visit otpp.com to register.



Plan funding status

Despite very good investment results in 2010 – the second year of recovery after the losses in 2008 – the plan's funding challenges remain.

*Eileen Mercier, Chair of the Ontario Teachers' Pension Plan Board
Read the Chair's full message in our annual report at otpp.com*

Persistent funding shortfalls

- > **Problem:**
 - Current preliminary funding shortfall is \$17.2 billion.
 - Low real interest rates, as well as longer lifespans and lengthy retirements, are increasing future pension costs faster than the plan can earn money.
 - Trends have a lower number of teachers entering the profession due to lower birth rates.
 - On average, retirees are living longer and drawing pension benefits for more years than they worked.

What happened in 2010?

- The shortfall remained essentially unchanged from the previous year.
- The Sustainability Working Group, a tripartite committee with representatives from the Ontario Teachers' Federation (OTF), the Ontario government and plan management, completed its review of the plan's persistent funding shortfalls.
- The Group considered numerous possible changes to the plan in order to safeguard its long-term viability and affordability.

Options:

To resolve funding shortfalls, the OTF and Ontario government can:

- Increase contribution rates;
- Invoke conditional inflation protection for pension credit earned after 2009;
- Reduce pension benefits that members will earn in future years; or
- Adopt a combination of these options.

Timing to resolve the current shortfall:

- The OTF and Ontario government must resolve the current preliminary shortfall no later than 2012. They may decide to address it this year.

- > The Sustainability Working Group issued its report in September 2010. It is available at otpp.com > Plan Funding

What is funding sustainability?

- >
 - Funding sustainability means finding the right balance of pension benefits, contributions and investment expectations to keep the plan financially healthy for all generations of plan members.
 - The funding valuation is a projection of the plan's future health, looking over 70 years. The plan sponsors – the OTF and the government – are not concerned about whether there is enough money in the plan today or in the next few years to pay pensions. What they are concerned about is whether or not there will be enough money in the plan 70 years from now when some current plan members will still be drawing benefits from the fund.
 - The pension fund has \$107.5 billion in net assets today.

Aging demographics make shortfalls more difficult to overcome

Plan members are living longer. In fact, it is not uncommon for members of this plan to be retired longer than they have worked. The number of pensioners grows every year, while the ratio of working teachers to retirees declines.

With fewer contributors relative to retirees, addressing funding challenges with contribution increases alone is becoming increasingly difficult.

30 years

Length of a typical retirement

26 years

Length of a typical teaching career

\$1.8 billion

Amount by which annual benefit payments exceed contributions

1.5 to 1

Ratio of working teachers to retirees, down from 4 to 1 in 1990

Fairness and cost: Two key concerns for funding sustainability

Two issues add complexity to the resolution of long-term funding challenges: generational equity and affordability of pension contributions for working members.

A guiding principle of pension plan stewardship is that each generation should contribute the right amount to pay for the benefits they receive. However, given the increase in longevity over the past 25 years, this balance has become impossible to achieve.

Life expectancy has changed, but pensions for current retirees cannot be changed retroactively under current Ontario law. Because today's retirees cannot help pay for funding shortfalls, the issue becomes pension affordability for working teachers. There is a limit to how much members and taxpayers can be expected to contribute; therefore, other solutions must be found.

The plan's board members and management are guiding the plan sponsors, providing information they need to make difficult, but important, decisions that are fair to current and future generations alike.

Adapted from Report from the Chair, Eileen Mercier 2010 Annual Report

Low interest rates increase pension costs

- The cost of future pensions increases when real interest rates drop. Real interest rates (interest rates after inflation) are used to project future pension costs.
- Imagine you are saving money to buy a house or car in three years' time. If your savings earn less each year because interest rates are low, you will have to put aside more money to reach your goal on time. It's the same with pension funding.
- The real interest rate was 1.1% at the end of 2010, much lower than the 10-year average of 2.2%.
- Rising real interest rates have the opposite effect, lowering projected pension costs.

ASSETS REQUIRED FOR A TYPICAL \$40,000 PENSION

Real Interest Rate	Amount Required ¹
1.0%	\$970,000
1.5%	\$900,000
2.0%	\$840,000
3.0%	\$735,000
4.0%	\$650,000
5.0%	\$580,000

When interest rates are low, the pension fund is expected to earn less. That means the pension fund requires more money today to earn what it will need for future retirees.

¹For retirement at age 59.

- > A 1% change in the real interest rate assumption has about a \$25 billion impact on the funding valuation.



Neil Petroff, MBA
Executive Vice-President,
Investments and
Chief Investment Officer

Investment performance

Investment returns surpassed our expectations in 2010. Amid economic uncertainty, we continued our strategy of investing for the long term in high-quality assets with an appropriate level of risk. This strategy produced strong returns and helped net assets grow to \$107.5 billion last year.

\$13.3 billion

Earned in investment income

\$4.0 billion

Earned above standard
market benchmarks

Exceeding market benchmarks helps pay pensions

Value-added returns are the extra returns earned above the performance of standard market benchmarks, such as the S&P/TSX Composite Index and S&P 500 Index. The \$4 billion value-added return in 2010 is the largest dollar value-added return in the fund's history.

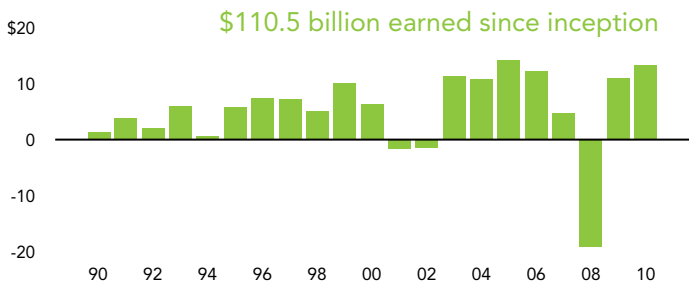
ASSET CLASS RETURNS COMPARED TO BENCHMARKS

(percent)	1-Year Return	1-Year Benchmark
Equities	10.4	7.5
Fixed income	9.9	9.5
Commodities	3.2	3.3
Real assets (real estate, infrastructure, timberland)	13.9	5.5
Total plan return ¹	14.3	9.8

¹The total fund also includes absolute return strategies and money market securities that are employed to enhance the fund's overall returns, and which contributed to the total plan return in 2010. Returns generated by absolute return strategies (\$0.8 billion) and money market, previously included in fixed income, are included in the total plan return and not attributed to an asset class.

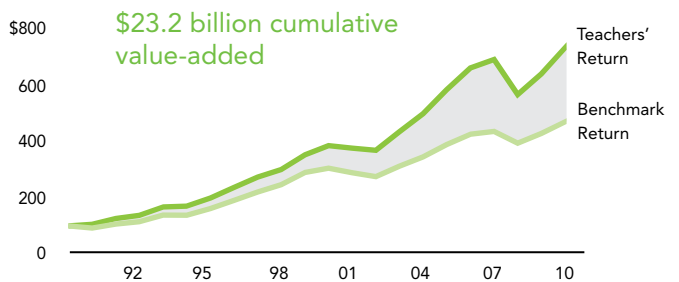
INVESTMENT INCOME EARNED

(as at December 31) (\$ billions)



INVESTMENT GROWTH

(\$100 invested in 1990)



Our diversified investment program has earned a total of \$110.5 billion since inception in 1990. The value-added return is \$23.2 billion of this total.

Major investments

Bonds and real-return instruments

(\$ billions)

Government of Canada bonds	\$20.5
Canadian inflation-sensitive bonds, notes and mortgages	16.2
International government and real-return bonds and debt	8.4
Canadian and international corporate bonds	5.1
Canadian treasury bills	2.1
Province of Ontario debentures and provincial bonds	2.0
Bank notes	0.1

Real estate managed by subsidiary

(\$ billions)

The Cadillac Fairview Corporation Limited	\$16.9
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Top 10 real estate properties

Chinook Centre, Calgary
Le Carrefour Laval, Montreal
Les Promenades St. Bruno, Montreal
Pacific Centre, Vancouver
Polo Park Mall, Winnipeg
RBC Centre, Toronto
Rideau Centre, Ottawa
Sherway Gardens, Toronto
Toronto-Dominion Centre Office Complex, Toronto
Toronto Eaton Centre, Toronto

Top 10 private companies and partnerships

Birmingham International Airport
GCT Global Container Terminals Inc.
GNC Corporation, Inc.
Hancock Timber Resource Group
InterGen N.V.
Maple Leaf Sports & Entertainment Ltd.
Orbis SICAV Global Equity Fund
Resource Management Service Inc.
Scotia Gas Networks PLC
Southern Cross Airports Corporation Holdings Inc.

Corporate shares/units

(millions)

Security Name	Shares	Fair Value
Multiplan Empreendimentos Imobiliários S.A.	52.1	\$1,152.0
Northumbrian Water Group plc	138.8	724.9
OGX Petróleo e Gás Participações S.A.	56.9	679.7
Deutsche Telekom AG	51.6	664.7
Vodafone Group Plc	248.8	653.2
Hitachi, Ltd.	119.1	631.9
Hammerson plc	82.2	545.0
Transocean Ltd.	6.8	469.7
Potash Corporation of Saskatchewan Inc.	2.9	453.1
Barrick Gold Corporation	7.1	379.5
LLX Logística S.A.	124.1	348.3
Eni S.p.A.	15.7	342.4
Akzo Nobel N.V.	5.1	318.0
Royal Bank of Canada	6.0	310.7
Goldcorp Inc.	6.7	309.7
MacDonald, Dettwiler and Associates Ltd.	6.1	306.2
HSBC Holdings plc	29.0	296.0
Portx Operações Portuárias S.A.	124.1	273.0
JPMorgan Chase & Co.*	6.4	268.1
BRF-Brasil Foods S.A.	15.9	262.1

Security Name	Shares	Fair Value
ACE Limited	4.1	\$252.6
Toronto-Dominion Bank, The	3.9	243.0
Royal Dutch Shell plc	7.3	241.7
Nestlé SA	3.9	229.1
UBS AG	13.8	225.9
Intel Corporation	10.3	214.4
Total SA	4.0	212.2
The Walt Disney Company	5.6	211.0
The McGraw-Hill Companies, Inc.	5.8	211.0
Bank of Nova Scotia	3.5	199.8
Microsoft Corporation	7.1	198.3
Suncor Energy, Inc.	5.2	197.2
3M Company	2.3	194.5
Itaú Unibanco Holding S.A.	8.1	194.0
PSA Peugeot Citroen	5.1	192.7
Wells Fargo & Company*	6.9	190.4
Pfizer Inc.	10.4	181.0
Unilever N.V.	5.8	178.7
Safeway Inc.	7.8	176.2
Canadian Natural Resources Limited	4.0	176.1
Rio Tinto plc	2.4	169.0
Novartis AG	2.8	166.5
Apple Inc.	0.5	161.2
Thermo Fisher Scientific Inc.	2.9	160.2
MMX Mineracao e Metalicos SA	23.5	158.3
Exxon Mobil Corporation	2.1	149.2
Applied Materials, Inc.	10.5	146.9
Teva Pharmaceutical Industries Ltd.	2.8	146.1
Carnival Corporation	3.1	140.9
Yahoo! Inc.	8.5	140.6
Cheasapeake Energy Corporation	5.3	136.9
NuVista Energy Ltd.	14.4	134.3
Carrefour SA	3.2	131.9
Dell Inc.	9.6	129.4
DIRECTV	3.2	128.7
SAP AG	2.5	127.8
Viacom Inc.	3.2	126.5
Capital One Financial Corporation*	3.1	125.8
Toyota Motor Corporation	3.1	122.7
Daiwa Securities Group Inc.	23.9	122.2
Cisco Systems, Inc.	6.1	121.7
Nippon Telegraph and Telephone Corporation	2.6	118.1
Marisa Lojas S.A.	7.8	118.0
Samsung Electronics Co., Ltd.	0.1	117.6
Symantec Corporation	7.0	117.1
Woodside Petroleum Ltd.	2.7	116.5
Talisman Energy Inc.	5.2	115.0
Johnson & Johnson	1.8	111.0
Bank of Montreal	1.9	109.4
HRT Participações em Petróleo S.A.	0.1	108.2
Rockwell Collins, Inc.	1.9	107.4
Fairfax Financial Holdings Limited	0.3	105.3
Canadian Imperial Bank of Commerce	1.3	104.5
Yum! Brands, Inc.	2.1	102.6
CSX Corporation	1.6	102.4
Manulife Financial Corporation	6.0	102.1
SunTrust Banks, Inc.	3.5	101.3
Canadian National Railway Company	1.5	101.0
Cheung Kong (Holdings) Limited	6.6	100.5
Actividades de Construcción y Servicios, S.A	2.1	100.0

* Includes fair market value of warrants and subscription receipts.

Online resources at otpp.com:

- View the CEO's video message
- Get the facts about plan funding
- Log in to iAccess™ Web for personal pension info
- Learn about our investment approach
- View the annual meeting webcast
- See the complete 2010 Annual Report

Annual meeting webcast – view it live at 5 p.m. EDT on April 7, 2011, or see the archive after the event.

Online resources for members at FundingYourPension.com:

- View funding education presentations
- Take a 5-minute quiz
- Get the top 10 funding Q&As
- Learn why we use smoothing

Contact us

We welcome your comments and suggestions on this Report to Members.

Please contact Andrew Kondraski at 416-730-6880 or 1-877-812-7989, or at communications@otpp.com.

Print copies of our 2010 Annual Report are available upon request.

Client services

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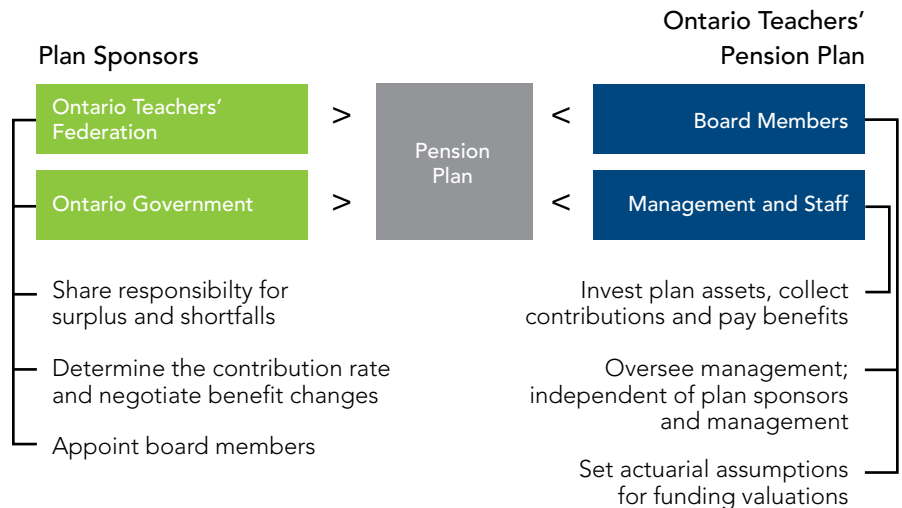
Corporate profile

The Ontario Teachers' Pension Plan is an independent organization and the largest single-profession pension plan in Canada. Its 819 employees are responsible for managing the plan's assets and administering pension benefits to plan members.

The plan has one of the largest payrolls in Canada. It paid out \$4.5 billion in pension benefits in 2010.

The organization's mission: **Outstanding service and retirement security for our members – today and tomorrow.**

The pension plan is sponsored by the Ontario Teachers' Federation (OTF) and the Ontario government. These sponsors jointly make decisions on plan benefits, contribution rates and funding shortfalls or surpluses.



Did you know?

- In 2010, the average age for pensioners was 69 and for teachers was 42.
- The average starting pension for teachers retiring in 2010 with an unreduced pension was \$46,000.
- The average age of new retirees in 2010 was 59.
- The plan has 95 members age 100 or older.
- We expect more than 45,000 teachers to retire over the next decade.

Return undeliverable Canadian addresses to:

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Toronto, ON M2M 4H5

