Speech to the

Ontario Teachers' Federation
Board of Governors

Annual General Meeting

By:
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Ontario Teachers' Pension Plan Board
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Check against delivery

Thank you, and good afternoon.

It's my pleasure to join you today with a mid-year update on the Ontario Teachers' Pension Plan Board. Our chair, Eileen Mercier, is sorry that, for scheduling reasons, she is unable to be here; she has asked me to convey her sincere regrets.

Bonne après-midi à tous. Je tiens à vous remercier pour cette invitation de me joindre à vous. C'est définitivement un plaisir de vous présenter un compte rendu des activités de notre conseil d'administration. Malheureusement, notre présidente, Eileen Mercier, ne peux pas etre des notres aujourd'hui. Elle m'a demandé de vous présenter ses excuses les plus sincères.

It's been about eight months since I became a member of the board, and what an exciting and eventful eight months it has been. We have a new Board chair and five of our eight board members joined this year.

Such a rapid change is far from ideal, but the board has managed the transition well: the Investment Division has made a number of acquisitions and divestitures; the Member Services Division continues its high service levels; and the partners and Board have completed our joint survey of members. We are in discussions with the expert panel regarding valuation assumptions and our HR and Compensation Committee is dealing with CEO succession.

I'm here today to talk to you about all of these subjects, some in more detail than others.

I will start with an update on the Member Services' Division.

As you know, this group has just come through its busy season. With the vast majority of retirement applications arriving at the end of the school year, their retirement season is the equivalent of a teacher's report card season – hectic, time-pressured, but above all, immensely satisfying.

The great news here is that 100% of all applications received were processed on time – regardless of how late in the process the application was received. From a service, cost and efficiency perspective, nearly 70% of this year's 3,500 July retirement applications were submitted on-line. As you can imagine, this speeds up the process tremendously, and more time can be devoted to adding value to our members' experience with us.

We participate in a survey conducted by the consulting firm Cost Effectiveness Measurement. Pension plans from around the world participate in this survey, and our score of 88 out of 100 brings us within one point of Number One.

Client services staff have received 122,000 inquiries so far this year – the equivalent of one inquiry each from more than half of all of our active members. In addition, nearly 87 thousand sessions have been handled to date in the members-only iAccess area of the website.   With members' web usage up by more than 21% from last year, on-line service is a growing reality at Teachers' and is popular with members.

With 3,500 new pensioners on the payroll as of the end of July, the plan now has more than 108,000 pensioners, and our annual benefits payroll is now up to $4 billion. And here are other interesting member facts, as of the end of 2006:

- Average credited service at retirement is 26.4 years
- The average expected retirement age is 57.3
- The average pension is paid to each member for 31 years, and
- The average survivor pension is paid for 5 years

Now, to the other side of the business.

The Investment Division has had one of its most exciting and dynamic years ever so far in 2007. They have closed their largest solo investment to-date: a $2.4 billion investment in the marine container terminals of Vancouver, New Jersey and New York.

Almost before the ink was dry on the last of these four port deals, BCE's board of directors announced they are recommending that shareholders accept the offer made by Teachers' and its private capital partners. That deal would not just be Teachers' largest ever if it passes shareholder and regulatory approvals. It would be the largest private equity deal in corporate history, at $52 billion, including debt.

The Teachers' board approved this offer not because it is big, but because it makes good business sense and it is good for our members. It is a solid company that has yet to realize its potential for a number of reasons, as the deal team confirmed during their due diligence.

The team has enjoyed previous success with one of our investment partners, Providence Capital, in other major international telecommunications takeovers in Spain, Germany and India. Our other partner, Madison Dearborn, was involved with Clearnet, a Canadian wireless telephone company. If the offer is approved by shareholders and the regulatory authorities, our team will offer valuable strategic counsel and intervention at the board level, while company management will lead the company's day-to-day operations.

Since May the plan also entered into three major infrastructure investment agreements: one to purchase 29% of the Birmingham Airport in the UK, and two   to acquire interests in a total of four water supply, distribution and wastewater services companies in central Chile.

Some other noteworthy news about our investment team – not only do we recognize them for their innovation and expertise, but so does the investment community at large. They were named "Savviest Plan of the Year" by Money Management Letter at its annual Pension Fund Awards gala. This was followed by the Public Plan of the Year Award from Institutional Investor Magazine. And Teachers' Private Capital was ranked 20th in the world in total capital deployed over the past five years by Private Equity International in its ranking of the world's largest private equity firms.

Of course the investment team doesn't just buy – it also sells. And that is what it did with its share of Samsonite in July. It purchased approximately 21% of the then bankrupt luggage manufacturer in 2003. With this recapitalization, the company was able to turn itself around and returned an impressive profit to the fund.

And to ensure it can not just respond to deals in a timely manner, but also to identify new deals, the investment team has opened Teachers' first office outside of Finch and Yonge in London, England.

I've spent a lot of time highlighting the fund's private capital accomplishments. Not surprisingly, they grab more headlines than our investment in Government of Canada bonds.

But it's important to remember that private capital accounts for only about eight per cent of the fund's investments. Equally important is the continued high performance of the other 92 per cent of investments in fixed income, public equities, real estate and tactical asset allocation and alternative investments. Total fund performance is what counts.

And speaking of total fund performance, the last few weeks have seen considerable turmoil in the markets. The good news is that we think this is a temporary response by the markets. The better news is that we are seeing some excellent buy opportunities in the Fixed Income and Public Equity markets. Even though we have little exposure to the commercial loans that are causing the turmoil, our fund is still subject to the extreme turbulence and volatility of the markets' response.

The period since the board last reported to you has been one of considerable study and inquiry, especially around three major issues:

First is the review of the plan's valuation assumptions by the expert panel, which was struck following last year's assumption process;

Second is the results of the members' preferences survey; and

Third is the succession process for a new CEO to replace Claude Lamoureux, when he retires at the end of the year.

Each issue on its own is significant. In combination, however, they are all the more compelling, and impress upon each of us as members of the board just how important our work here is.

Starting with the latter issue, I can assure you that the Human Resources and Compensation Committee of the board has CEO succession well in hand. A successor will be named in ample time for an appropriate transition period.

The second issue is members' preferences regarding contribution rates and benefits, should changes be required in the future.

Pollara Inc. is the Canadian public opinion and marketing research firm that conducted the active-member survey in the spring to determine their preferences. The survey was jointly sponsored by the OTF, the government and the Teachers' Board. Pollara presented the survey report to the June meeting of the Board.

The whole report is posted on the Teachers' website, but I'll mention some of the key findings:

- Where pension plan knowledge is concerned, we were encouraged to hear that the majority of members have a high level of awareness of their key benefits and of their contribution rates. The board feels that this knowledge validates the preferences they expressed in the rest of the survey.

- Regarding Contribution levels, members would be willing to pay an average maximum of 12.3% of their base earnings to preserve their current pension package. This is 1.3% higher than the average amount members will contribute when scheduled rate increases are fully implemented in 2009. New members, mid-career members and older members share similar contribution rate tolerances, ranging from an average maximum of 11.9% to 12.8%

- As for their benefits:
  - 51% would support making cost-of-living increases on future pension service conditional on the financial well-being of the pension plan
  - 41% would support increasing the 85 factor to a 90 factor, and
  - 32% would support decreasing monthly pensions for future service by 10%

And that brings me to the last major issue, which is the Expert Panel review of valuation assumptions.

As an actuary, I am accustomed to the complexities of assumptions and the vagaries of the economic scene that dictates them. However, the Ontario Teachers' Pension Plan is certainly one of the most, if not the most, complex I have ever encountered. The size of the liabilities, the investment risk such obligations demand, and member demographics, are some of the major issues at play.

With this is mind, I must say how impressed I am with the talent, knowledge and overall capabilities of the pension plan staff. Their modeling capabilities surpass those of any actuarial firm I know. Let me reiterate that you are in the hands of knowledgeable professionals who are at the forefront of actuarial work.

Actuarial assumptions are the foundation of the board's funding valuation. And you can imagine that with real interest rates fluctuating and the credit crunch pushing the market down, the valuation process becomes increasingly complex.

The actuarial assumptions are the subject of the expert panel review. This panel was struck earlier this year to develop a balanced, objective and evidence-based independent review of the actuarial assumptions used by the Board in the preparation of its funding valuations.

A preliminary report will be delivered to the board in two days. The final report will be delivered to the Board on September 21. We hope to schedule a presentation of the Panel's report and recommendations to the partners the same day. The report will be used by the board and our actuary as the assumptions are set for 2008 and moving forward. I remind everyone that 2008 is a valuation filing year.

The expert panel comprises experts in the fields of actuarial science, economics and finance. That the partners and board were able to attract all of this talent is further testament to the world-class nature of the Teachers' plan.

In addition, the Board expects that the plan's Funding Management Policy will have to be amended so we are adequately prepared to deal with future fluctuations.

This is the subject I want to leave you with you today, because it is the most pressing pension issue you and I will face here for many years. We all have an opportunity now to make important decisions and implement the changes that will make future pensions affordable for - and available to - all members for the foreseeable future.

Let me expand on that thought. The Plan's experience supports this. In fact, people are living longer, so payments must be made for longer periods than was previously anticipated. For example, 72 Teachers' pensioners are aged 100 years or older. This imposes extra demands. The fund's contributors cannot tolerate as much risk as they did in the past. Why? Because the contribution-to-asset ratio is much lower than it used to be. Contributions no longer support the funding equation to the degree they once did.

Think of it this way: to support a relatively stable contribution rate, investment risk would have to be lowered, thus earnings would be lower in the long term. The contribution rate then would have to be relatively high to compensate for the lower earnings.

To support a lower contribution rate, more investment risk would need to be assumed. The problem with this scenario is that the plan's contributors cannot tolerate as much risk as in the past. Why? Because there are relatively fewer of them today to cover a plan shortfall through contributions if markets fail us.

Therefore, the contribution rate may have to increase (or benefits decrease) to meet the filing requirements of the regulators.

This funding risk must be mitigated and the Funding Management Policy is the ideal place to manage it.

The expert panel's recommendation on how the plan should be valued and their views on how intergenerational balance should be or can be managed will determine the answers to these issues.

Now is an excellent time to make these decisions, if only to ensure that young and future members' pension prosperity is not compromised.

You know, there is a troubling trend afoot in our society today, and that is the trend to view our reality only from one quarter to another. It's true of companies that don't invest in their futures with adequate research and market development. It's true of some governments that think they are responsible for today's citizens only and not tomorrow's. Being in the pension business as we all are, however, the long term is our reality. And that's why I urge you to think of today's and tomorrow's members as you review the Expert Panel's recommendations and prepare for the filing of the 2008 funding valuation.

Le prochaine évaluation actuarielle du plan de pension sera préparée en date du 1 janvier 2008. Dans les mois qui précéderont cette évaluation, beaucoup d'information sur nos hypothèses d'évaluation actuarielles, sur la volatilité du marché et sur les taux de rendements de notre fonds de pension nous seront procurés. Il sera primordial de bien se préparer pour établir une base solide pour le financement de notre plan de pension pour le bien-etre de nos enseignantes et enseignants d'aujourd'hui et de demain.

The board looks forward to discussing these matters with you and the Government in the weeks and months ahead.

And now, I and the executive team of Claude Lamoureux, Bob Bertram and Rosemarie McClean, are glad to take your questions.

Thank you.