

Pension News

INFORMATION FOR RETIRED TEACHERS AND THEIR SURVIVORS

SPRING 2005

What happens to your pension if your marriage ends after retirement?

Your pension could be your biggest family asset, exceeding even the value of your home.

Under Ontario's *Family Law Act*, pension benefits accrued during your marriage are included in the calculation of family property to be shared when you break up.

When all your family property is assessed, you and your spouse draw up an agreement on how to share the value equally. If you cannot agree on the division of family property, a court can decide who gets what.

Including your pension in family property does not mean your benefit is split automatically when your marriage ends. In fact, we will pay a portion of your pension to your former spouse only if directed to do so under a separation agreement or a court order issued in Ontario. Even then, special rules apply to the division of pension assets.

Rules for the division of pension assets

Many pensioners use other assets to equalize family property and keep their pensions whole. If you want to assign a portion of your pension to your former spouse, here's what you need to know:

- We need a certified copy of your separation agreement or court order, which clearly identifies how to split your pension.
- Pension law prohibits us from paying your former spouse more than half of the value of the pension you accrued during your marriage.

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Dividing family assets can be a daunting task.

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Q Will my new spouse get survivor benefits when I die?

A You can provide coverage for your new spouse, in exchange for an actuarial reduction in your pension, if you don't have a former spouse or dependent child who is eligible for benefits. You must apply for the survivor benefit within 90 days of: your marriage; the date your partner qualifies as a common-law spouse; or the date your child ceases to be eligible. If you miss the application deadline, you still may be eligible providing we agree that medical evidence (you provide on our form) shows you are in good health for your age.

Q Will my pension go up if I receive a retroactive salary increase?

A Yes, we will recalculate your pension if the retroactive settlement increases the best five-year average salary on which your pension is based. There is no need to contact us for an adjustment. It happens automatically about six months after your former school board notifies us of the retroactive settlement. Long lead times are required because we need to adjust thousands of pension records.

In addition to higher monthly pensions, affected members receive lump-sum payments representing the difference between their old and new pension amounts, plus interest.

Monthly pension increases stemming from retroactive salary adjustments are usually small. For example, a two per cent salary increase, retroactive for one year, translates into an extra \$14 per month for a typical \$40,000 annual starting pension. ■

What happens to your pension if your marriage ends after retirement?

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- The spouse you had when you started your pension is entitled to a survivor pension when you die. Different rules may apply if you retired before 1990; contact us for details.
- Part 1 of Ontario's *Family Law Act*, which deals with family property, applies only to married couples. Common-law spouses arrange for the division of property on their own or through the courts.
- Income tax is deducted from both your pension payment and your former spouse's pension payment, based on your individual tax rates.
- Your pension grows with inflation every year, but inflation increases will be applied to your former spouse's pension only if required under the court order or separation agreement.
- We need your written consent to supply personal information to your lawyer, actuary, former spouse or other third party. ■

Where to find help

Our staff

We cannot provide legal advice about your draft separation agreement or calculate the value of your pension for the division of family property.

However, we can review an agreement to determine whether or not we can legally comply with its terms.

Lawyers

The Law Society of Upper Canada offers a lawyer referral service. A directory with lawyers' contact information is also available online at www.lsuc.ca.

Actuaries

The Canadian Institute of Actuaries maintains a directory to help the public find local actuaries in good standing. Actuaries can help you value your pension. Contact: www.actuaries.ca.

Who sets pension benefit and contribution levels?

Only 11 per cent of pensioners can correctly name the Ontario Teachers' Federation (OTF) and the Ontario government as the bodies responsible for changing your pension plan. Surveys show most pensioners believe the Teachers' Pension Plan is solely or jointly responsible for plan changes.

If you're not sure who does what, read on.

The Plan Sponsors

- The Ontario government and OTF set benefit levels, contribution rates, and ensure the plan has enough funds to meet all pension benefit obligations to members. Together, they decide how to use surplus funds or deal with a funding shortfall.
- The sponsors each appoint three representatives to a partners' committee to negotiate changes to the plan and contribution rates.
- The sponsors each appoint four representatives to the Teachers' Pension Plan Board of Directors and jointly select a chair. Directors are selected based on their relevant and diverse business experience.



A six-member partners' committee, with equal representation from the Ontario government and Ontario Teachers' Federation (OTF), discusses ways to deal with your pension plan's funding shortfall. Committee members include, from left to right: George Saranchuk, First Vice-President, OTF; Yvan Roy, Past President, OTF; Jim McQueen, President, OTF; Bruce Macnaughton, Director, Ministry of Finance; Ross Peebles, pensioner and former Deputy Minister & Associate Secretary of Cabinet, Centre for Leadership. Absent: Peter Gooch, Director, Ministry of Education.

Teachers' Pension Plan Board

Board of Directors

- The Board of Directors reviews and approves investment policies, budgets, annual corporate objectives and executive compensation. Day-to-day management of the plan and its assets are delegated to staff.
- The board must act in the best financial interests of all plan members. Directors operate independently of both management and the partners.

Management

- The more than 500 employees of the pension plan manage the pension fund, invest the plan's assets, collect contributions, pay pension benefits and provide client services. ■

Pensions are protected by law

Some retired teachers are wondering whether their pension is secure in light of the funding shortfall reported in the 2004 *Report to Members*. The report was mailed to all pensioners last month. Under Ontario's *Pension Benefits Act* your pension is secure and cannot be reduced, said Claude Lamoureux, President and Chief Executive Officer.

"Low interest rates in 2004 caused the cost of future pensions to grow by \$18 billion, even more than the substantial growth in investments. This has resulted in a growing shortfall of assets," said Mr. Lamoureux.

If the shortfall persists, the Ontario government and Ontario Teachers' Federation (OTF) must take steps to bring the fund back into balance before filing the next actuarial valuation with pension regulators in 2006.

To address the shortfall, the OTF has said that a contribution rate increase for current teachers and the Ontario government is "unavoidable" in 2007.

For more information, read the *Funding Report 2005*, in the publications section of our website at www.otpp.com.

Part six of an investment series

How we manage investment risk

Your pension plan is known in industry circles as a good risk manager because it achieves stellar long-term investment returns while prudently managing risk.

But what does risk management really mean and how does it affect your pension?

“Our ability to assume risk is driven by the expected volatility in our assets and the cost of future pension benefits,” said Morgan McCague, Senior Vice-President, Asset Mix and Risk.

“Using an asset-liability model, we assess the long-term risk and return trade-offs of allocating different proportions of the fund to different classes of assets, such as equities, real estate and bonds.”



*Morgan McCague,
Senior Vice-
President,
Asset Mix and Risk*

The model works much like personal computer programs that can help you decide where to invest based on future income needs, current assets and expenses.

Over the past decade, faster computers and better risk management software have made it possible to take into account far more information than was possible before, particularly in measuring short-term risk, and to monitor risk more frequently.

For example, we can quickly calculate the risks of buying and selling investments at any point because our computers have tracked the daily movements of more than 2,000 stocks for 15 years.

Foreign currency risk

When we invest outside Canada, returns are subject to the risk of currency fluctuations. This volatility impacts the value of any gains or losses in foreign investments. To reduce the volatility of returns due to foreign currency fluctuations, we hedge our equity exposure to currencies such as the Japanese yen, Euro and British pound. We also try to make money by buying and selling currencies at the right time. This is similar to the timing decisions you make when buying foreign currencies to spend during a vacation abroad.

Liquidity risk

Having enough cash on hand to pay \$290 million in pensions every month is paramount to our business. We also need cash to close deals like the recent \$610 million financing of Parmalat Canada.

To manage short-term liquidity needs, the fund maintains at least one per cent of its assets in unencumbered Canadian treasury bills.

You, too, probably keep some of your assets liquid to meet unforeseen emergencies.

Credit risk

When we lend money, we run the risk that the borrower won't pay us back. A potential default of payments is known as credit risk. The plan's biggest exposure to credit risk is with the federal and Ontario governments because close to one-fifth of the plan's assets are invested in government bonds or debentures. Of course, the risk of the government defaulting on its payments is small.

Corporate risk can also be managed by investing only in companies with good credit risk ratings and growth prospects.

Interest rate risk

Fluctuations in interest rates affect the plan's assets and liabilities. For example, a one per cent drop in real (after inflation) interest rates can increase the future cost of pensions by \$19 billion.

Assets are also affected by interest rates in many different ways. For example, our real estate portfolio provided the biggest above-market returns in 2004, primarily as a result of low interest rates. ■

Your plan named best risk manager

Your pension plan has won an award for managing investment risk better than any other pension plan in the world.

The prestigious industry award from *Risk* magazine recognizes your fund's achievements with derivatives in "highly challenging and competitive markets."

"The Ontario Teachers' Pension Plan has a well-earned reputation for being at the vanguard of pension fund risk management," the magazine said.

Investment briefs

Pension plan buys commercial laundry firm

The coins deposited at your local laundromat may find their way into your wallet. Teachers' Private Capital, the private equity arm of your pension plan, has purchased Wisconsin-based Alliance Laundry Systems for approximately \$500 million. Alliance, the leading North American maker of commercial laundry products, also manufactures home appliances sold in Ontario under the Huebsch brand.

Fund invests in Canadian life sciences

Teachers' Private Capital and Bioscience Managers Ltd. have jointly established a new fund to invest in mid-stage Canadian life science companies.

The new BML International Maple Leaf Fund invests in companies engaged in costly clinical development programs required to bring scientifically proven products to market.

The new fund fits your pension plan's strategy of putting a larger portion of its assets in investments other than bonds and publicly traded stocks.

End of foreign content cap will save costs

The federal government's proposed elimination of the 30 per cent cap on foreign investments will save your pension plan millions in annual fees and open up new opportunities for global investments.

"In an effort to deliver better returns, we've used swaps and derivatives to boost our foreign content to about 40 per cent of assets," said Bob Bertram, Executive Vice-President, Investments.

Bob said an end to the cap will save fees and provide increased flexibility to invest outside the country. Canada represents only about three per cent of the world's markets. ■

How to recognize an Internet thief

Fraud artists may try to hook you on their next “phishing” expedition.

Phishing, the name coined for the latest Internet scam, is growing at an alarming rate because of the ease of coercing information from people who believe they are dealing with a trusted organization. Here’s how one such phishing scam works.

- 1** You receive an e-mail from a thief, impersonating a legitimate organization. The thief asks you to provide or verify personal information. You recognize the e-mail sender’s address and have no reason to suspect fraud. The thief may ask you to link to his fake website to provide the information.
- 2** The fake website looks exactly like the real one; even an experienced eye can’t tell the difference.
- 3** You provide or verify personal information.
- 4** Armed with your personal information, the thief can authorize purchases, withdraw or redirect funds and commit other crimes.

“We take security seriously. We use top-notch security practices and systems to protect our members’ personal information,” said Rosemarie McClean, Senior Vice-President, Member Services.

“But we can only do so much.”

Ten ways to protect yourself

- Select unique passwords that are difficult to guess. Try a combination of letters and numbers.
- Keep your passwords confidential and change them often.
- Never send or provide confidential information in an e-mail.
- Don’t click on links in an e-mail to get to a secure website. Instead, type the address into your browser. (A secure website requires a password.)



- Install anti-virus software, a firewall and anti-spyware on your computer. Keep them and your operating system up to date.
- If in doubt, check it out. Call us if you receive a suspicious e-mail, reportedly from the pension plan.
- Don’t open an unexpected e-mail attachment, even if from a trusted source.
- Be wary of any e-mail request to verify personal information, especially if the request is urgent.
- Recognize that the sender’s name in an e-mail can be forged.
- Stay informed about new ways to protect yourself from the latest scams.

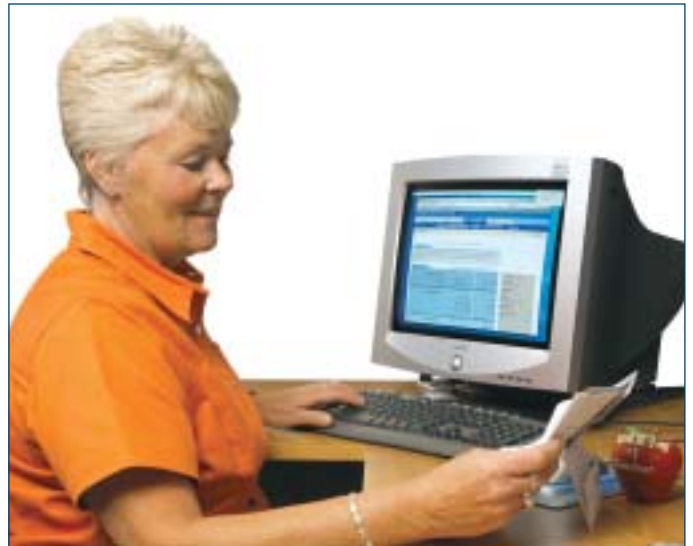
Five ways we protect you

- We use strict registration and sign-in protocols so only you can access your personal information on iAccess.
- We are moving toward the exclusive use of plain text e-mail messages because other forms are more susceptible to viruses.
- We are phasing out the use of e-mail attachments because they are prone to viruses.
- We do not transmit or ask you to send confidential information via e-mail.
- We don’t send e-mails asking you to link *directly* to a website to provide or verify personal information. You can update your personal information any time on iAccess. ■

Find out what's new on our secure website

We've introduced five new features for pensioners on *iAccess*, our secure member website. You can now:

1. View audio-visual presentations on inflation protection and teaching after retirement (see article below).
2. Increase the size of text on your computer screen with a click of your mouse.
3. Retrieve and print a duplicate copy of your 2004 T4A.
4. Change the amount of "extra" tax we may be deducting from your pension.
5. See historical pension information, including: the values used to calculate your starting pension, your service record, and changes to your pension payment. ■



Visit [iAccess](#) for personal pension information.

See new presentations from comfort of home

You don't need to dress up to view our new presentations.

Two new audio-visual summaries — one on the value of inflation protection, the other on working after retirement — are delivered right to your home on *iAccess TV*, part of our secure member website.

The segments, which are narrated by our pension benefits specialists, package complex pension information in easily digestible chunks.

"This is just one more way pensioners can get information on specific pension topics whenever they need it," said Rosemarie McClean, Senior Vice-President, Member Services.

To register for *iAccess*:

- complete a form available on our website at www.otpp.com, or
- call 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m. ■

School gets new computer after teacher becomes 50,000th user

Teachers at an elementary school in Scarborough have one more reason to log on to *iAccess* — a new computer.

A teacher at the school won an opportunity to donate the computer after becoming the 50,000th member to register for *iAccess*, our secure member website. The computer was shipped to St. Maria Goretti Catholic School after the teacher hit the magic number earlier this year. ■

Did you know?

- 5,200 teachers retired last year
- 97,000 people now collect a Teachers' pension
- 28 per cent of pensioners are under age 60
- \$36,600 is the average annual pension for all retirees

Two new directors join board

Two new members have joined your pension plan's Board of Directors. Eileen Mercier and Carol Stephenson were appointed by the Ontario Teachers' Federation (OTF) to replace Lucy Greene and Ann Finlayson, who reached the maximum eight years' service on the board at the end of 2004.

Eileen Mercier brings 30 years of business experience to her new role. She was Senior Vice-President



Eileen Mercier

and Chief Financial Officer of Abitibi-Price Inc. before establishing her own management consulting firm. A Fellow of the Institute of Canadian Bankers, Eileen holds an MBA from York University and serves on several prominent boards.

Carol Stephenson, Dean of the Richard Ivey School of Business, also has more than 30 years of business experience and serves on several boards. After rising to the executive ranks of Bell Canada,

Carol worked as President and CEO of both Stentor Resource Centre Inc. and Lucent Technologies



Carol Stephenson

Canada. A graduate of the University of Toronto, Carol completed executive management programs at the University of California and Harvard University. She holds an honorary doctorate in engineering from Ryerson University. ■

Same-sex marriages recognized

Your pension plan will recognize same-sex marriages when a new definition of spouse is adopted under Ontario's *Pension Benefits Act*.

Same-sex couples now qualify for survivor benefits under the same rules that apply to common-law spouses. Your plan defines a common-law spouse as someone who lived with a member in a conjugal relationship for at least three continuous years (or less if they are the natural or adoptive parents of a child).

The change would affect same-sex couples who married before meeting the common-law definition.

Pensioners who marry a same-sex partner after retirement may be eligible for spousal survivor benefits in exchange for an actuarial reduction in their pension. ■

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