Remarks by

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Merci beaucoup, (Rian), et bonjour à toutes et à tous.

Congratulations, Rian, on a successful year at the helm, as OTF president. I know it has been an especially busy year for you to have this responsibility, given the plan partners' decision to file this year. I want to personally thank you, on behalf of all of us at the plan, for your dedication and determination.

Et bienvenue et félicitations, Francine, alors que vous assumez vos responsabilités en tant que président. Vous avez également une année importante et chargée devant vous, pendant que vous regardez le flux et reflux des marchés. Vous pensez peut-être que c'est une responsabilité immense, mais soyez assuré que nous sommes tous là pour vous soutenir.

I am joined today by Plan CEO Jim Leech, as well as Melissa Kennedy, Plan General Counsel, Corporate Secretary and SVP Corporate Affairs. And as you know, I also am joined by board member Louis Martel.

Last year I spoke to you on two major issues – and at the risk of sounding like a scene from the movie "Groundhog Day," I will be addressing some aspects of the same two issues this year:

1. the current economy and
2. our progress towards funding sustainability.

Given the continuing fragile state of the world economy, and the work-in- progress towards the sustainability of this fund, it only makes sense to continue to address these same topics.

But before I go into detail on those issues, I want to first commend OTF for its foresight in filing in advance of the 2012 deadline. With markets going through such turmoil, returns modest, and interest rates expected to remain low for the next two years, it is becoming clear that you would have been solving for a larger shortfall had you waited

until next year. And congratulations also to all involved in the ongoing education and communications efforts with members. The very low telephone, mail and email traffic that followed the filing announcement indicates that members were neither surprised nor alarmed by the filing and the changes it necessitated.

Now, let me turn to current economic conditions.

We are in the midst of what appears to be yet another perfect storm, with no one single economic issue at play, but rather the convergence of many. This convergence reflects another crisis of confidence, resulting from, for example:

- a required bailout of some EU countries, and the propping-up of euro-zone bonds for most others
- the downgrading of the US credit rating
- the biggest market declines since 2008 – with the S&P down an ominous 11% between July 22 and Aug 16.….
- national interest rates around the world nudging towards zero as certain currencies are pushed ever higher by safe haven seekers, (and pushing pension liabilities even higher, as a result)
- the US Federal Reserve Bank’s unprecedented announcement that it is likely to keep its key interest rate at near zero through mid-2013 – a sure sign of continuing economic inertia
- political debt ceiling rhetoric in the US, which froze their legislative system
- market uncertainty and the liquidity squeeze it can spawn
- fears of a double-dip recession
- and the irony of US market mayhem, coupled with flights to its currency as a safe haven.

This downturn is different from 2008 because not *only* is it an international crisis of confidence, but it stems from too much sovereign debt, not a bank liquidity crisis The combination of what the *Globe and Mail* recently called ”too much debt and too little confidence” has suppressed demand and limited growth. As a result, consumers can’t pull their national economies out of the economic sludge. This is the same situation in which Japan found itself for more than a decade starting in the ‘90s.

The Standard & Poors downgrading of the US credit rating did not tell us anything we did not already know. But it was an “Emperor has no clothes” moment. It was their way of saying “take a bitter pill and call me in 10 years.” I do not think they were saying that the US is in any danger of defaulting on its debt. I think they were saying there is a question of whether the US Government has the political will to make the tough – and politically unpalatable - changes that the country needs to restore its economy and reduce deficits. Until it does, there will be no growth, no progress. And as the saying goes, “there is no progress without change.”

So there you have it: neither of the two market forces that we count on to balance each other out and keep our fund healthy is in a positive mood. Pension liabilities are being pushed higher, as a result of low interest rates, which must stay low to maintain the precarious balance of keeping borrowing affordable so people will spend and spur demand … but not push debt levels over the precipice. At the same time, assets are going nowhere, further widening the asset-liability gap.

I will not hazard a guess as to what our year-end results will be in this volatile market, but I will say “thank goodness we are conservative.” As Jim said in a recent media interview: “It’s a tough market in which to have conviction.” However, our investment strategy is for the long term, our liquidity is excellent, and no one here is panicked. We are in much better shape to withstand these mega swings than we were in 2008. In fact, our investment team has been able to pick up some very well priced assets these past few weeks. And that’s fine for the asset side of the house; the liability side is another matter, however.

And that brings me to Issue #2: Funding Sustainability.

To recap, the plan's preliminary 2011 shortfall was eliminated with the implementation of a three-part plan agreed by the OTF and the Ontario government. That plan includes:

- A 1.1% contribution rate increase, phased in over the next three years, starting on January 1, 2012
- Slightly smaller annual cost-of-living increases for teachers who retired after 2009: 60% inflation protection is being invoked, effective this year
- Recognizing the current contribution rate, adopted in 2007, as the permanent base rate moving forward: 10.4% of a member's annual salary up to the CPP contributions and benefits limit; and 12.0% of any salary above that limit.

With these changes adopted, the board was able to adjust the rate of return assumption upwards from 3.15% to 3.25%. This rate remained within the range that the independent hearing officer concluded was reasonable. Thousands of hours of effort and many more thousands of dollars of costs went into this year's Hearing Officer exercise, and we were glad to see his validation of our rate-setting mechanism. His conclusion confirms the plan's practice of using the real rate in the marketplace as the guide for our rate of return assumption as a fair and valid indicator of economic conditions to come.

What the filing did *not* do, however, was prevent future shortfalls from occurring. For that to happen, we will likely need to see further changes to the plan – changes that will alter our risk profile more dramatically than has been possible to-date.

The fund's sustainability is affected by both economics and demographics, and the two are inextricably linked. This is a reality that we share with Defined Benefit plans around the world. Simply put, people are living longer than ever was predicted when today's defined benefit plan model was conceived.

A recent issue of *The Economist* tells the story of the late Gertrude Janeway, of the United States. Mrs. Janeway died in 2003. Until then, she had been receiving a $70 a month Veterans' Administration pension. Not much, you say. Well maybe not…. Until you take into consideration the fact that her late husband was a soldier in the American Civil War … which ended in 1865! She married him in 1927, when he was 81… and she was 18. So, as *The Economist* reported, that particular pension entitlement actually spanned *three centuries*…….

An extreme case, for sure. But it makes an important point, of which our actuaries and investment managers alike are acutely aware: we must consider the plan's long term *liabilities*, not just its assets.

In Teachers' case, as we told you at our annual meeting, we now have 2,500 pensioners who are over the age of 90. And that includes 95 who are over *100* years of age … our oldest collecting member celebrated her 109th birthday and has been collecting a pension since 1967. This highlights the issues of benefit sustainability and intergenerational equity – making sure that pension funds are there for today's young people … and those who haven't even been born yet… when they retire.

Initially, pensions were designed to allow workers to live decently for the short gap between ceasing work and death. At Teachers', that gap has widened to the point that members now generally collect pensions for longer than they contributed to the plan. Let me remind you of our numbers: In 1990, the average member retired with 29 years of service. By 2010 that was down to 26 years. To further exacerbate the problem, with increased longevity, today's retiree can expect to enjoy 30 years on pension, compared to the new 1990 retiree, who only had 25 years on pension to look forward to.

Defined benefit pension plans are facing the same dilemma confronting consumers and governments: We simply cannot continue to spend more than we earn and expect to be able to provide for the future.

And that, interestingly, is where our opportunity lies.

Darwin said "It is NOT the strongest of the species that survives, nor the most intelligent, but the one *most responsive to change*." And make no mistake about it, the DB as it is currently structured in some quarters *is* an endangered species that needs to change to survive.

What we need to do now, is to be a model for others to copy to return the Defined Benefit Plan to a level of affordability that is fair, realistic and sustainable.

You have already led the way by adopting a joint sponsorship model from the outset. Not only do you share the cost of the benefits, but you share the risk. It would be a real step forward if Air Canada and Canada Post and others like them were to adopt a jointly sponsored plan and share the risks between the employer and the employee. That would certainly be a far superior solution to simply shifting all of the risk from one partner (the employer) to the other (the individual employee), neither of whom can afford that level of risk.

I am greatly encouraged that there is an understanding among your leadership of the need to mould the benefits of this plan to its assets over the coming years.

- Inflation protection needs to be conditional on the fund's financial health.
- Being retired for longer than you contributed is unsustainable … and needs to be corrected over the coming years.
- There is a ceiling to how much members can afford to pay for their pensions … especially as our ratio of working to retired members continues to flatten.

Your plans to survey the membership for their opinions and ensure you are proposing well-considered solutions that can be implemented over time make eminent good sense. The board and management are committed to helping you with these efforts.

One thing is certain: The future is going to look different from the past. Just as national economies need to undertake change to respond to their changed environments, so must pension plans.

The world remains impressed with our Canadian economic fortitude in the wake of the 2008-2009 financial debacle. An IMF official has called Canada “the paragon of thoughtful, growth-minded fiscal consolidation, and *New York Times* columnist Catherine Rampell says that “American policy makers might learn a thing or two from Canada’s patient, hysteria-free pruning.”

They should be saying similar things about the Ontario Teachers’ Pension Plan’s partners. That’s what enlightened world leaders do: they take bold steps … and they do so calmly and deliberately. That’s why I believe Teachers’ vision -- “To be the world’s leading pension plan organization” -- is an achievable one.

Thank you.

And now it is my pleasure to invite Louis Martel to present his update on behalf of his fellow board members.

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