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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Merci beaucoup, Maureen, et bonjour à toutes et à tous.

I'm joined today by fellow board member Guy Matte, our CEO Jim Leech, our Executive Vice President of Investments, Bob Bertram, and our Senior Vice President of Member Services, Rosemarie McClean. Together, we will be glad to take your questions at the conclusion of Guy's and my remarks. Also in the audience today are board members Hugh Mackenzie and Louis Martel.

First, I want to commend you, Maureen, on an outstanding year's work as OTF President. Ce fût une année à relever des défis, mais je n'ai aucun doute que c'était une expérience enrichissante pour vous. Your dedication to the tasks at hand, and your commitment to doing what is right for your membership have been exemplary.

And congratulations to you, Joe, on your new position as President. We look forward to continuing to work with you and your executive team throughout your term.

I am glad to join you today to report on your pension plan and to discuss with you the issues it faces. My remarks today are in the context of the pension plan's three ongoing goals on behalf of all members:

- Secure benefits
- Stable contribution rates, and
- Intergenerational equity.

Although I will leave today's detailed mid-year update to Guy, I have some important points about the plan's outstanding administrative and investment service I wish to make. I will then spend most of my time with you today on the subject of funding. You and your government partners, together with the Board, have important decisions to make as you prepare for the valuation filing at the end of next month, and we at Teachers' want to do all that we can to help you with that task.

But first, I have some important news for you about your pension service: a recently-released report from CEM Benchmarking Inc. ranked the Teachers' plan **first** among its peers in North America – and tied for first place worldwide. This is based on an evaluation of 11 service categories, ranging from the payment of pensions to contact with members. It is all the more significant when you see that our costs remain significantly below other top rated plans that offer full service directly to members. I see that you, our members, also agree with this assessment, as our quality service index numbers currently stand at a rating of 9.1 out of 10.

Rosemarie's team has just come through another busy pension season, and the plan now has 111,000 retirees. Pension benefits paid in 2008 therefore will be $4.2 billion, compared to $4 billion in 2007. Total contributions for the year will be $2.4 billion, compared to $2.1 billion last year. You will know that this increase in contributions is not due to an increased number of active teachers contributing. Rather, it reflects the January 1, 2008 increase in the contribution rate. That was the second in a series of rate increases resulting from the valuation filed in June 2006. The third contribution rate increase takes effect January 1, 2009.

Now, a look at investments.

As everyone here is aware I am sure, the global investment climate remains very volatile.

A year ago, no one could have predicted how deep and pervasive the credit crisis would become. It is kicking the stuffing out of the US economy, and Canada's as a result. The credit crisis has hit our fund, too. Our Fixed Income investments are feeling that pain, which comes with having to mark them down to current market prices. The good news is that other areas that could have been hit harder are actually doing not too badly.

The after shocks of the sub prime and asset backed commercial paper crises will continue to be felt for the rest of the year and perhaps into the next couple of years. If ever there was a time to have confidence in our risk management system and our due diligence process, and to stay the course without taking shortcuts, this is it. We will be tested like never before over the next 12 to 24 months. There will be short term pain, but we are in a long term game.

The good news is that our team is well experienced and so has not over-reacted to current market challenges. Because the market is cyclical, they have endured investment pain in the past. We have just come off an unprecedented 10-year bull market that some less experienced managers might have thought would never end. But our team has seen the ups and downs and they know that all bull markets end. Cool heads are in charge. Management and the Board remain confident in the plan’s geographically and asset-diverse portfolio, the team’s attention to market condition details, and their ability to act and react. As we said at our April annual meeting: in times of market turmoil, there are few better responses than to focus on the basics, and to concentrate on doing what we do well.

Bob Bertram paraphrased Rudyard Kipling at our April Annual Meeting, and I think it bears repeating today:

> “If you can keep your head while all about you are losing theirs …. If you can trust yourself when all men doubt you …Yours is the earth and everything that’s in it; and, which is more, you'll be a *successful investor,* my son.”

And that brings me to the main subject of my talk today: the resolution of the funding shortfall

Never in the history of the plan has each of our respective parties - the Board, the OTF and the government - been confronted by more pressing issues. Fortunately, we also have never been better informed on how to deal with such issues.

We have worked together diligently, gathering information from some of the most astute minds in the pension world – actuaries, lawyers and academics - and from those who depend on us the most: our members. The data has been gathered impartially, with the active involvement of the plan partners and the Board, and it has been shared and presented transparently.

- Since the 2005 valuation, together we have surveyed members and received a detailed report on their benefit and contribution preferences, should these need to change.

- We jointly sponsored a major study on our actuarial assumptions by an international panel of experts. They confirmed that our plan is now mature and as such our valuation assumptions are not overly conservative; that our discount rate should reflect return and risk; and that a new policy tool is required to share risk across all generations.

- Further to the expert panel's opinions on our demographics, we engaged a renowned Waterloo University researcher, who produced our new mortality table. It indicates that members are living considerably longer than our assumptions had suggested, which makes the plan more expensive to fund than we previously had assumed.

- Teachers’ also commissioned a supplementary study of eight other Canadian defined benefit plans, to understand how they have dealt with the funding challenge of their maturing plans. The eight plans studied all determined that the best way to reconcile their conflicting priorities, that is: their members’ needs, including intergenerational equity, their sponsors’ needs and the financial needs of the pension plan, was to adopt various forms of conditional inflation protection.

That is the data we have gathered to help make a difficult decision. All of us have a responsibility to the members of this plan to do everything possible to ensure its ongoing financial health while treating all members, both current and future, as fairly as possible.

The many groups that find their pension plans under water and in jeopardy today did not take this risk seriously. Our three parties do. As I said at the outset, our goal for our members always is three-fold:

- Secure benefits
- Stable contribution rates, and
- Intergenerational equity.

When investment income is not enough, the Pension Benefits Act describes two tools available to plan partners to correct a funding shortfall - they are:

1. Increase contribution rates, or
2. Reduce non-accrued benefits.

Based on all of the research that we have done together over the past two years, and the data that resulted, we at the Board have a clear view of what we believe is the best option for all members. We have shared this advice with the plan partners’ leadership. We understand that discussions are well underway and we are encouraged to hear that the process is moving forward. We know that everyone involved in making this decision is aware of the risks that unsustainably high contribution rates represent, and of the need for a workable, long term solution. The Board is confident that the partners have the data – and the will – to make a thoughtful and well-informed decision that is in the best interest of all members.

Once the decision is made, considerable work will remain to be done to finalize its details in time for the September 30 filing. It will be a busy month for all of us and our advisors.

In conclusion, then, let me leave you with these three thoughts:

Number One: your pension plan remains in the hands of the best in the business. Your administrative service and investment expertise are second to none.

Number Two: the only constraints your pension plan is experiencing are being imposed by external forces over which we have little, if any, control: the demographics of plan maturity, which is hampering our investment flexibility, and an investment climate that Bank of Canada President Mark Carney has characterized as the “new normal” with its low interest rates and lower investment returns.

And finally, Number Three: the board’s job is to give you its best informed and most considered recommendation. Everything we do is done within a mandate of preserving, protecting and enhancing the long term value of the plan.

Thank you. Jim, Bob, Rosemarie and I look forward to your questions.