



Ontario Pension Board

Report to Members and Pensioners

2004

WHO WE ARE

The Ontario Pension Board (OPB) is the trustee and administrator of the Public Service Pension Plan (PSPP). With more than \$13 billion in assets, 32,400 members and 42,400 pensioners, the PSPP is one of Canada's largest pension plans. It is also one of the country's oldest pension plans, dating back to the early 1920s.

Drawing on best practices, the OPB continues to provide superior service and achieve outstanding investment results. As a result, **we remain strong and well-positioned to fulfill our mandate – preserving the “pension promise.”**

CLIENT PROFILE

as at December 31, 2004



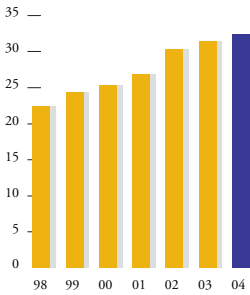
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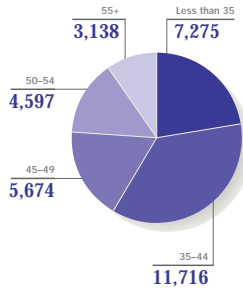
Member Profile

- Membership in the PSPP continues to grow. There were 32,400 members at December 31, 2004, up 950 from a year earlier.
- The PSPP has a diverse membership base – members work at 67 Ontario ministries, agencies, boards and commissions.
- Contributions to the Plan from members and employers totalled \$308.5 million in 2004.

Growth in Membership
thousands of persons



Age Distribution of Members
as at December 31, 2004



Our Service to Members

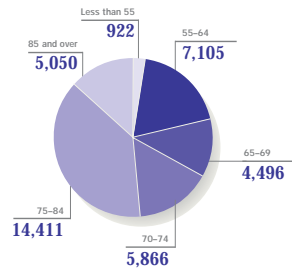
	2004	2003
Telephone calls	15,591	13,800
Buybacks of service	2,191	997
Pension estimates	998	890
Presentations	34	23
Other cases	40,159	29,573

Pensioner Profile

- The PSPP had 37,850 pensioners at December 31, 2004, down from 38,400 a year earlier.
- Pensioners received a total of \$743.5 million in pension payments in 2004.
- The PSPP had 4,550 deferred pensioners at year-end 2004, up from 4,300 at year-end 2003. (A deferred pensioner is someone who no longer participates in the pension plan, but who is still entitled to a future pension.)
- The Escalation Factor paid out on January 1, 2004, was 3.3%. (This adjustment was prorated for members who retired part way through 2003.)

Escalation Factor PSPP pensions are fully inflation protected. Each year, pensioners receive an inflation adjustment known as the “Escalation Factor,” which is based on changes in the Consumer Price Index. Although increases are capped at 8% per year, any excess will be carried forward to the next year.

Age Distribution of Pensioners
as at December 31, 2004



Pensioners

	2004	2003
Number of pensioners at beginning of year	38,400	39,000
Additions, including new retirees and previously deferred	1,150	1,150
Deceased pensioners	(1,100)	(1,150)
Deceased survivors of original pensioner	(600)	(600)
Number of pensioners at end of year	37,850	38,400

Our Service to Pensioners

	2004	2003
Telephone calls	19,613	19,763
Information changes	18,026	13,778
Other cases	10,926	10,304

Deferred Pensioners

	2004	2003
Deferred pensioners at end of year	4,550	4,300



Discipline

Long Term

Everything we do at the Ontario Pension Board is driven by our pledge to fulfill the pension promise. We strive to provide members and pensioners with high quality, cost-effective service. At the same time, we're committed to building on our history of strong investment performance. **We believe our disciplined and long-term approach to asset management and investing continues to be the right approach for the future.**



Letter from the Chairman

Vision

John Richardson
Chairman

The security of current and future pensions starts at the top – with the OPB’s Board of Directors. More specifically, it hinges on the Board’s relationship with management, its direction and oversight of Plan assets, and its support for member and pensioner services.

In 2004, an examination of the Board’s activities led to a review of the OPB’s governing principles. These principles provide a framework for carrying out our mandate. They also help to preserve our culture of integrity and accountability.

In the wake of this review, the Board decided to separate the roles of Chairman and CEO. Don Weiss accepted the role of President and CEO and I was appointed Chairman.

In other Board news, we welcomed two new Directors – J. Urban Joseph and M. Vincenza Sera. And, we said goodbye to Board member Geoffrey Collins, who retired. We are grateful for the wise counsel Geoffrey provided, as well as his dedication to Plan members and pensioners.

The OPB also said farewell to Leonard Lu. Leonard retired at the end of 2004 after 14 years with the OPB, including 10 as President. We thank Leonard for his many contributions and wish him the very best in retirement.

Throughout 2004, OPB met and managed the many challenges of an evolving pension environment. As we move into 2005, new challenges are already emerging. One of these is an uncertain investment climate characterized by low interest rates and restrained equity markets.

That said, we’re ready to tackle challenges that lie ahead. Our disciplined, long-term approach to investing is generating strong returns. Our working relationship with the Plan’s stakeholders is strong and mutually supportive. OPB’s management team consistently achieves a high standard of performance. And, the Board remains committed to meeting the pension promise.

A handwritten signature in dark ink, appearing to read 'John Richardson'.

John Richardson, *Chairman*

Strong Governance

The mandate of the OPB's Board of Directors is clear and simple – to preserve the “pension promise.” The Board oversees the administration of the pension plan, invests the Plan's assets, establishes policy, and supervises OPB management.

In fulfilling its mandate, Board members are guided by a well-defined set of governing principles, bylaws, a code of conduct and a statement of mandate. Together, these documents form a governance framework designed to ensure that Board members, as well as OPB employees:

- Act in the best interest of Plan beneficiaries
- Invest and manage the Plan's assets wisely
- Promote a culture of honesty, reliability and openness
- Comply with the Plan text and applicable legislation

The Board currently consists of seven dedicated and qualified members, each appointed by the Lieutenant Governor in Council. Board members offer professional expertise in a range of fields, including management, investment and pension administration.

Letter from the President and CEO

Leadership

My first year as President and CEO has been a year of change and transition. We saw changes in the senior management team, challenges in the investment markets, new appointments to the Board, and a comprehensive review of the OPB's governing principles. However, throughout it all, we remained focused and put in a solid performance as Plan administrator *and* manager of the investment fund.



Donald D. Weiss
President & CEO

At OPB, our role is two-fold:

- To increase the value of the Fund by producing returns that, over the long term, exceed objectives
- To provide members with high quality and efficient pension administration services

We achieved both these objectives in 2004 – reaffirming our view that a long-term, disciplined strategy is the right approach to secure the pension promise.

Our investment portfolios continued to perform well in 2004. Overall, the Fund generated a 2004 return of 10.18%, compared to 10.77% in 2003. The Fund’s annual return since the OPB’s launch in 1990 now stands at 10.36%.

Despite our strong investment performance, the Plan now faces a projected funding shortfall of approximately \$750 million. This shortfall is the result of two key factors:

- Poor investment returns in 2001 and 2002 being reflected in the current valuation because of smoothing. (“Smoothing” recognizes gains and losses over, in OPB’s case, a four-year period.)
- Low interest rates that drive up our liabilities.

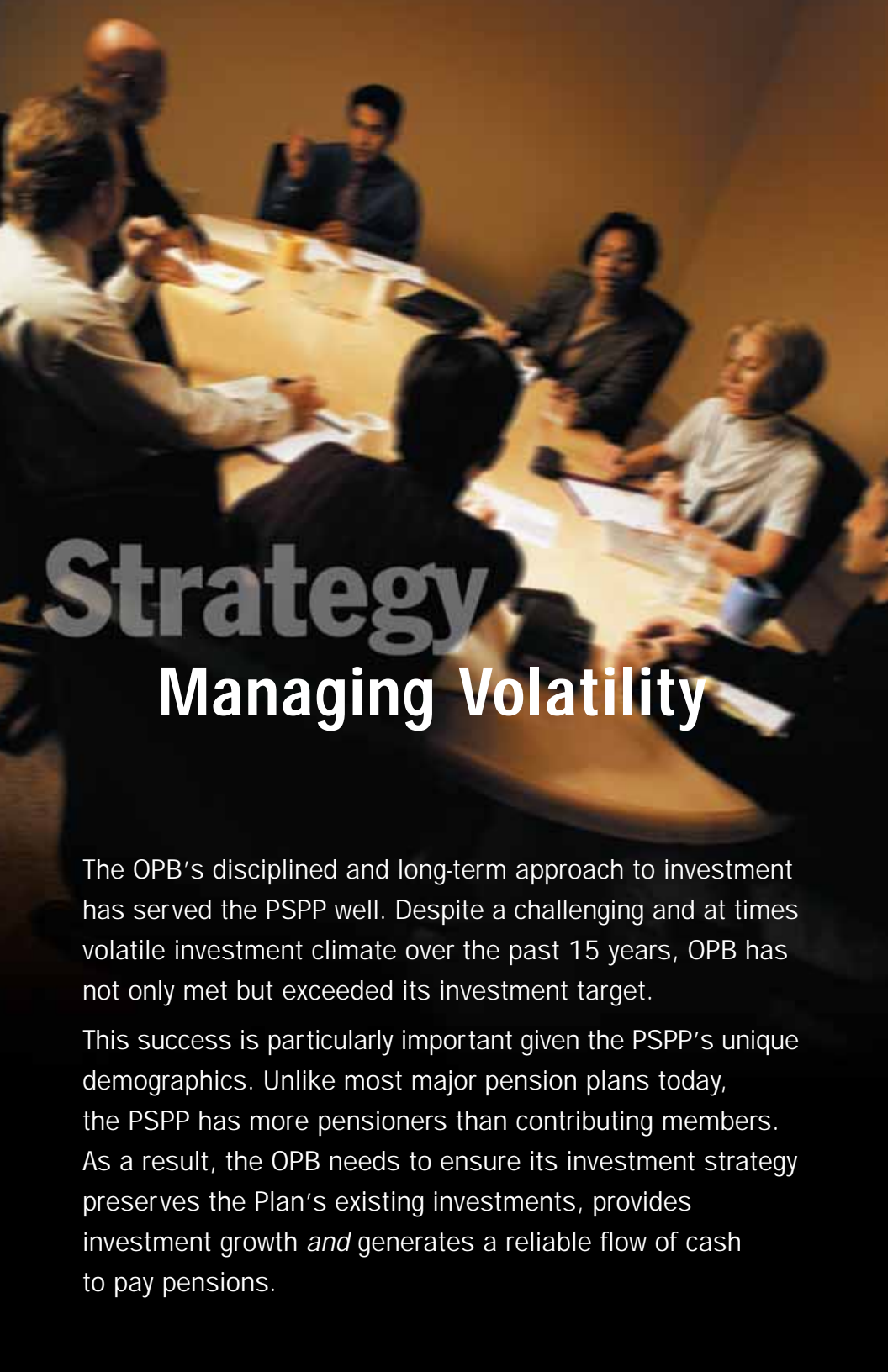
It’s important to note that the projected shortfall represents only 4.5% of the Plan’s total liabilities and was not caused by any systemic underfunding. The Plan continues to be on a firm financial footing and the core pension promise remains secure.

We believe that the changing pension environment demands new approaches to investment, liability management and the delivery of services to members, pensioners and other stakeholders. With that in mind, the OPB launched a comprehensive review of its strategic plan in late 2004. We will be finalizing that plan in the first half of 2005.

In the meantime, I want to extend my sincere thanks to OPB Board members and staff for their extraordinary efforts during the past year. Because of their effort and support, we can look to the future confident that we’re well-positioned to meet the challenges ahead.



Donald D. Weiss, *President & CEO*



Strategy

Managing Volatility

The OPB's disciplined and long-term approach to investment has served the PSPP well. Despite a challenging and at times volatile investment climate over the past 15 years, OPB has not only met but exceeded its investment target.

This success is particularly important given the PSPP's unique demographics. Unlike most major pension plans today, the PSPP has more pensioners than contributing members. As a result, the OPB needs to ensure its investment strategy preserves the Plan's existing investments, provides investment growth *and* generates a reliable flow of cash to pay pensions.

While low interest rates will likely make it more difficult to achieve our targets going forward, managing difficult situations has proven to be one of the OPB's core strengths. For example, when the OPB was established in 1990, we inherited a \$2.5 billion funding shortfall. Our consistently strong investment performance allowed us to eliminate that shortfall more quickly than expected. It also afforded temporary enhancements to the Plan by the Ontario government (the Plan's Sponsor), including temporary early retirement provisions and contribution reductions.

Unfortunately, the OPB once again faces the challenge of a funding shortfall.

Each year, the OPB conducts an actuarial valuation. The purpose of this valuation is to determine the financial status of the Plan. While the December 31, 2002 valuation reported a funding excess of \$25 million, the most recent valuation – dated December 31, 2003 – reported a funding shortfall of \$749 million. In other words, the Plan's liabilities exceeded its assets by \$749 million. (Liabilities reflect the value of the benefits that have been earned by members and are payable in the future.)

The year-over-year change in the Plan's financial status is due to two key factors – poor investment returns in 2001 and 2002, and a low interest rate environment.

To value the Plan's assets, the OPB uses a "smoothing" method. Smoothing "averages" the impact of significant market ups and downs by spreading gains and losses over several years (in this case, four years). The funding shortfall identified in the 2003 valuation therefore reflects losses incurred in 2001 and 2002.

At the same time, low interest rates have caused the Plan's projected liabilities to grow more quickly than expected at a time when "actuarial" assets were growing slower than expected. The liabilities represent the present value of all the future benefits to be paid from the Plan.

It is important to note that the OPB is closely monitoring the funding shortfall and working diligently to close the gap. In the meantime, investment performance continues to be strong and pension benefits remain secure.

Accountability

Financial Review

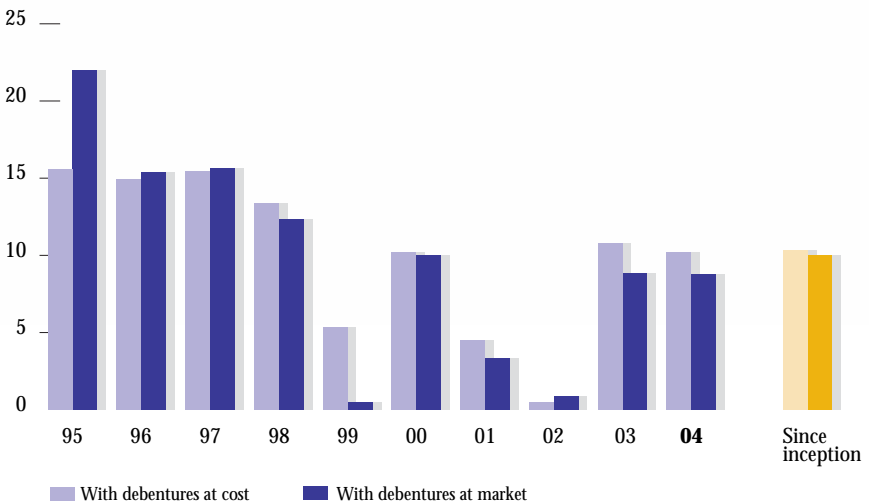
Investments

The OPB's investment performance continues to be strong. In 2004, the OPB achieved a healthy 10.18% return, only slightly lower than the 10.77% return earned in 2003.

Since its launch in 1990, the OPB has generated a very respectable annual rate of return that averages 10.36%. That's well above the OPB's long-term target of 3.75% *above* the rate of inflation. (Since 1990, inflation has averaged approximately 2.1%.)

Total Returns

% per annum



Asset mix

OPB's investments can be grouped into three key categories:

1. Marketable Securities –

The marketable security portfolio – which is made up of equities, bonds and cash equivalents – represents 65.1% of our investment portfolio. In 2004, the marketable security portfolio returned 9.0%, compared with 10.32% in 2003.

The majority of our marketable securities are managed by eight external fund managers. The activities of these managers are closely monitored. They are subjected to regular performance reviews and must provide detailed reporting.

2. Special Province of Ontario Debentures – Special Province of Ontario Debentures were given to the OPB as a funding mechanism in 1990. The Debentures, which will mature over the next 10 years, are secure, offer a high rate of return, and provide a stable cash flow.

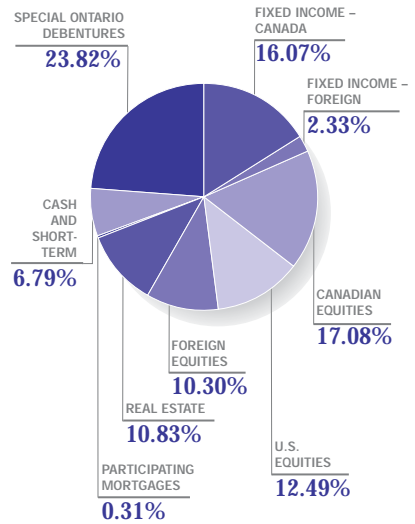
Our debenture holdings returned 12.0% in 2004, up from 11.89% in 2003.

3. Real Estate and Participating Mortgages – Real estate continues to be an effective investment for the OPB. The portfolio returned 13.08% in 2004, up from 10.58% in 2003. The annual rate of return since 1994, when the OPB made its first real estate purchase, now stands at 9.93%.

The \$1.4 billion real estate portfolio represents 10.8% of the Fund's total investments. Investments include retail shopping centres, as well as office and residential land. In 2004, these properties were 98.1% leased and earned \$104.9 million in operating income – providing the OPB with an important source of monthly cash flow.

Asset Mix

as at December 31, 2004



Financial Review continued

OPB continually looks for new and existing real estate opportunities that meet its investment objectives.

Total investment in participating mortgages is \$40.0 million. Undeveloped lands in the Greater Toronto Area are held as security, and were appraised at \$74.8 million. These mortgages accrue a base interest, and are designed to earn a share of profits generated over the next several years as the lands are sold or developed.

Net Investment Income

Continued improvement in the equity markets allowed us to boost investment income in 2004. The Fund's total investment income for the year was \$1.226 billion, up from \$1.214 billion in 2003.

After deducting investment and custodial fees of \$15.4 million (\$13.6 million in 2003), the Fund reported net investment income of \$1.210 billion, up from \$1.201 billion in 2003. Investment fees are the fees paid to investment fund managers. Custodial fees paid to a financial institution cover safekeeping, management of investment transactions and investment reporting services.

Contributions

Contribution income was higher in 2004, partly due to a return to normal contribution levels. During the last 10 months of 2003, the basic contribution rate for employees was reduced to 5% of salary (employer contributions continued at normal levels). In March 2004, employee contributions returned to their normal level of 8% (integrated with CPP). Income from contributions also increased in 2004 due to a 3% increase in Plan membership.

Transfers from Other Plans and Termination Payments and Transfers

The day-to-day business of the Plan includes the transfer of benefits between pension plans and beneficiaries. Many transfers arise because employees move to or from a position that is represented by the Ontario Public Service Employees Union (OPSEU). Positions represented by OPSEU are covered by the OPSEU Pension Plan. In 2004, there were 804 transfers into the PSPP from the OPSEU Pension Plan, down from 1,190 in 2003. At the same time, there were 280 transfers from the PSPP to the OPSEU Pension Plan, up from 145 in 2003. The PSPP also allows members to transfer past service in or out of the Plan.

Pensions Paid

While the number of pensioners declined in 2004, the average pension was higher. This is due in part to the 3.3% Escalation Factor (i.e. inflation protection adjustment) that was granted to retirees on January 1, 2004. The OPB now pays \$62 million in pensions each month. In 2004, 41% of this cash came from contributions, while a substantial part came from investment income. The OPB takes cash flow requirements into account when determining where and how the Fund's assets should be invested.

Operating Expenses

Operating expenses include the cost of providing services to members and an ongoing investment to improve service levels. In 2004, the number of individual members, pensioners and deferred pensioners served by the OPB increased by 1% to 74,800. Operating expenses for 2004 were \$17.5 million. In addition, the OPB paid \$15.4 million in investment management and custodial fees. This means total expenses for 2004 were \$32.9 million – or 25 cents for every \$100 of assets.

Five-Year Review

(in millions of dollars)

	2004	2003
Opening assets	\$ 12,284.0	\$ 11,489.6
Investment income	1,210.7	1,201.2
Regular contributions	308.5	270.9
Unfunded liability payments	-	-
Transfers from other plans	81.7	108.4
	1,600.9	1,580.5
Pension payments	743.5	728.5
Terminations	55.6	41.2
Operating expenses	17.5	16.4
	816.6	786.1
Closing assets	\$ 13,068.3	\$ 12,284.0

Annual rate of return:

With Special Debentures at cost* **10.18%** 10.77%

* Consistent with prior years, our returns are presented on the basis of the Special Province of Ontario Debentures being carried at cost (versus market value) in the financial statements. Additional market-related information is available in the OPB's annual financial statements contained in the 2004 Annual Report.

	2002	2001	2000
	\$ 11,945.1	\$ 11,951.2	\$ 11,196.0
	41.8	517.7	1,111.0
	135.2	130.2	176.5
	-	-	106.1
	144.5	103.0	143.2
	321.5	750.9	1,536.8
	721.2	695.9	669.6
	42.1	45.7	100.3
	13.7	15.4	11.7
	777.0	757.0	781.6
	\$ 11,489.6	\$ 11,945.1	\$ 11,951.2

Cumulative
Since
Inception

0.48%

4.52%

10.19%

10.36%

Board of Directors



JOHN E. RICHARDSON

Chairman

Appointed to the Board on February 6, 2002.

A former Deputy Chairman of London Insurance Group Inc., Chairman, President and CEO of Wellington Insurance Company, President of Great Lakes Power, and partner with Ernst & Young LLP.

HUGH GRANT MACKENZIE

Appointed to the Board on December 4, 2002.

Currently, principal with Hugh Mackenzie and Associates, an economic consulting firm. Over a 30-year period, he has held a variety of positions related to public policy development in the private sector and at all three levels of government.



DEBBIE L. MCKENNA

Appointed to the Board on December 17, 1997.

Executive officer of Member Benefits and Services for the Ontario Provincial Police Association, where she has worked for 25 years as an expert in pension policy and financial management.

M. VINCENZA SERA

Appointed to the Board on September 17, 2004.

Managing Director of the Financial Institutions Group, Investment Banking for National Bank Financial from 1992 to 2004. Served as co-head of the Canadian Financial Institutions Group (FIG) practice at Putnam Lovell NBF from 2003 to 2004. She has more than 20 years' experience in investment banking.



MARY TATE

Appointed to the Board on November 20, 2002.

Currently, Assistant Deputy Minister of the Registration Division of the Ministry of Consumer and Business Services – a position she has held since February 2003. She has close to 25 years of experience in the Ontario Public Service.

J. URBAN JOSEPH, O.C.

Appointed to the Board on July 1, 2004.

Vice Chairman of Toronto Dominion Bank from 1992 to 1996. During his career with the bank, which began in 1952, he held a number of positions, including Assistant General Manager of Marketing & Public Relations and Executive Vice President of the Human Resources Division. He has held 11 directorships.



G. PATRICK H. VERNON

Appointed to the Board on October 1, 2001.

Currently associate counsel with McCarthy Tétrault LLP. Previously served on the board of directors of the Munich Reinsurance Company of Canada and Mizuho Bank Canada, a wholly-owned subsidiary of a major Japanese bank.

Corporate Directory

Officers

Donald D. Weiss
President & CEO

Mark J. Fuller
Executive Vice-President, Pensions

Linda J. Bowden
*Senior Vice-President,
Corporate Services*

Robert F. Kay
Senior Vice-President, Investments

Peter Shena
*Vice-President, Pension Policy
& Research*

Thomas Choi*
*Vice-President, Planning &
Information Technology*

Darla S. Sycamore
Treasurer & Director, Finance

*Joined OPB March 2005

Management

Stuart Anderson
*Manager, Systems Development
& Planning*

Anne Catherall
Director, Human Resources

Armand de Kemp
Controller

Veronica Harris
Manager, Member Services

Mark A. Henry
Director, Operational Policy

Peter M.T. Johnson
Director, Member & Pensioner Services

Karen Kojima
*Manager, Treasury & Investment
Accounting*

John Konas
*Manager, Pensioner Services &
Acting Manager, Data Quality*

Kimberly Norton
Director, Administrative & Board Services

Siva Sivanesan
Manager, Operational Policy

F.J. (Jim) Wyseman
*Manager, User Applications Support
& Control*

Our Mission

OPB's mission is to excel in the provision of pension benefits by:

- Delivering high quality cost-effective services to Plan participants
- Enhancing fund value through the prudent maximization of long-term investment returns

Our Core Values

- A commitment to excellence
- Achievement through teamwork, leadership and client service
- Trust, fairness and respect in the treatment of Plan participants
- Accountability to Plan participants

www.opb.on.ca



Ontario Pension Board

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