



POLICE PENSIONERS ASSOCIATION OF ONTARIO

PENSION UPDATE

DECEMBER 2006

The PPAO continually monitors OMERS and other pension related issues to update PPAO members on any matters affecting the ongoing health of the plan or any issues that members need to be made aware of. As you can see from this Pension Update considerable dialogue is pushing forward on a number of fronts.

OMERS

The OMERS pension plan continues to produce good investment returns along with an increase in indexing for pensioners.

First, OMERS announced the increase for 2007 will be 0.7%, which reflects 100% of the rise in the Consumers Price Index (CPI) measured between September 2005 and September 2006. PPAO members will recall last year, there was significant increases in the price of gas, which caused the CPI to soar in September 2005. This resulted in an inflation increase of 3.36%, the largest annual increase to our pension since the early 1990's.

INVESTMENT INFORMATION

OMERS is one of Canada's largest pension plans, with more than \$41 billion in assets. One of the many investment portfolio's under careful administration is OMERS Infrastructure and real estate holdings.

Currently OMERS has invested approximately \$4 billion in the global portfolio of infrastructure projects such as transportation, energy, building (long-term care facilities, hospitals and schools), pipeline, water and waste management. In 2005 investment returns soared to 23.2% (compared to the benchmark of 11.8%).

In the past year OMERS has increased its portfolio in this area to included MDS Diagnostic Services and Fairmont Hotels and Resorts.

MDS Diagnostic Services provides 50 million diagnostic tests to 10 million patients and 20,000 physicians each year, with annual reviews of \$335 million. As many PPAO members will know, diagnostic services are a critical part of the healthcare system with more than 70% of healthcare decisions involving a laboratory test.

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In the case of the Fairmont Hotel and Resort OMERS real estate investment arm Oxford Properties, recently acquired seven landmark hotels from the Fairmont group. The purchase represents the highest quality in Canadian accommodations and will generate significant investment returns for the plan.

On November 23, 2006 OMERS announced they expect to earn at least 10% on investments this year, exceeding its own forecast, because of gains from real estate, private equity and publicly traded stocks.

Paul Haggis, President and CEO of OMERS said the plan is benefiting from its creation last year of a \$1.5 billion "focus portfolio" of about 20 Canadian companies which he expects to beat the S&P/TSX index. Some of the major stocks in this "focus portfolio" include Manulife, Royal Bank and Encana.

The PPAO continues to monitor the investment strategies being developed by senior investment professionals and will keep members updated on these strategies as they evolve.

CANADA PENSION PLAN-DEBT REDUCTION

In November 2006 the federal Conservative government announced new plans to reduce the national debt. Interestingly enough the Finance Minister Jim Flaherty advised that it was the government's intention to include Canada and Quebec pension plan assets as part of the debt-reduction plan.

The Minister's budget update included assets of the giant public pension funds as part of the monies to wipe out the national debt during this generations life cycle. This is a significant change in government policy because up until this point only assets from the Employment Insurance fund were included in general government revenues and had been previously used to pay down the debt.

Almost immediately analysts criticized the move by the Minister saying the budget proposal linking federal debt reduction to the growth on CPP assets should be abandoned. The analysts say very clearly the assets and liabilities of the Canada Pension Plan should be kept separate because the money piling up in the CPP is to meet the liabilities in the CPP, not the federal budget. Basically the federal government wants to use the funds in the CPP as collateral for federal borrowing in the future and this is dangerous.

The PPAO will be discussing this issue at its December Board Meeting and report back to the membership on any course of action being planned.

ONTARIO EXPERT COMMISSION ON PENSIONS

On November 9, 2006 the provincial government announced the formation of an Expert Commission to seek input on ways to ensure that Ontarians can rely on their pension plans, and keep the province's pension system sustainable.

Currently there are more than 7,500 pension plans in Ontario, and more than 2 million Ontario pension plan members. Fifty-one per cent of the plans are defined benefit plans (OMERS), with 83 per cent of the members (Statscan Jan 1, 2005).

The Pension Benefit Act, which governs pension plans, has not been substantially updated since 1986 but much has changed since then so the government has formed this Commission to review the laws governing plans and to update the regulations.

The Commission will focus on the following:

- Pension plan funding and surplus;
- The Pension Benefits Guarantee Fund;
- Full and partial plan wind ups, plan splits and mergers;
- Asset transfer between pension plan; and
- Funding of defined benefit multi-employer pension plans.

The mandate of the Commission is to *"examine the legislation that governs the funding of defined benefit pension plans in Ontario, the rules relating to pension deficits and surpluses, and other issues relating to the security, viability and sustainability of the pension systems in Ontario"*

The Commission comprised of experts from all walks of pension expertise will be starting a consultative process with individuals and groups from across Ontario.

The PPAO will be discussing this very important issue at the December Board Meeting. The PPAO has contacted the Commission and expressed our interest in providing our input and views in order to ensure retired police personnel are properly represented.