Ontario Municipal Employees Retirement System

Annual Report 1999

Our Vision

OMERS will be an autonomous, self-funded pension plan managed by and for its members and employers.

OMERS will provide a choice of pension options for employees engaged in the delivery of local government services.

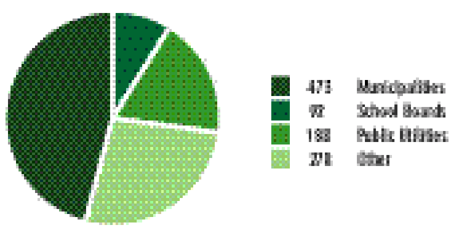
OMERS will keep its “pension promise” through prudent investment and cost effective management.

1999 Highlights

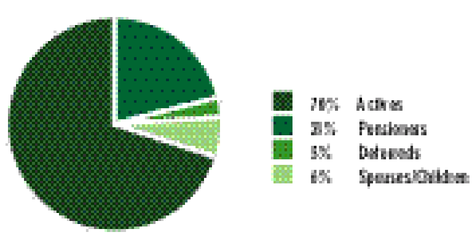
Profile

OMERS serves more than 1,000 employers and 50 unions and associations. Plan membership has grown to 271,000.

Employers



Members



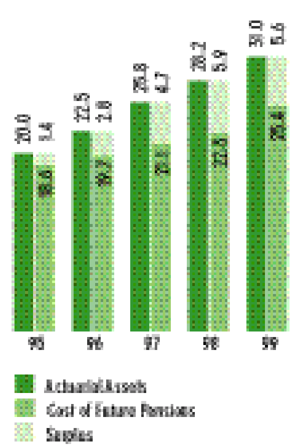
Performance

OMERS has posted another strong return in 1999. Investment assets now total $35.3 billion.

- One-year results 15.2%
- Four-year results 14.8%
- Ten-year results 11.1%

Asset growth versus cost of future pensions

($ billions)



Our Core Values

We provide high quality service to all our clients.

We treat each other with respect, fairness, trust and dignity.

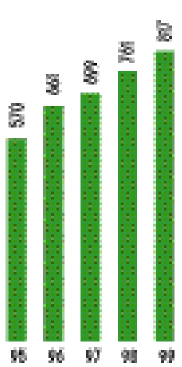
Contents

Member Services

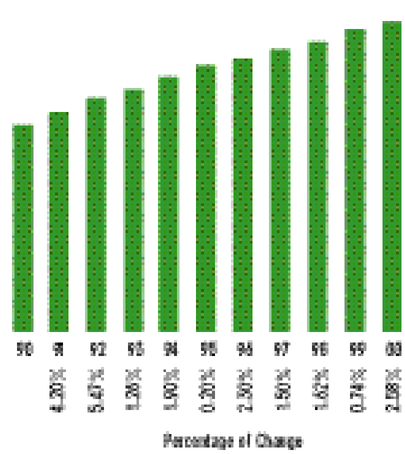
As the Plan continues to grow, OMERS is committed to providing service and plan improvements.

The value of an OMERS pension grows each year by the rate of inflation. A member who received a $20,000 pension in 1990 would receive almost $25,000 today.

Pension payroll
($ millions)



Growth in pension benefits due to inflation protection
$20,000 in 1990 increases to $24,779 by 2000



Chair's Report

I have had the honour of serving as a member of the Board since 1992 and have seen first hand how well OMERS works under the management of both local employers and their employees.

OMERS was one of the first pension funds in Canada to adopt a joint management model and it has produced great results for plan members. Joint management makes sense because employers and employees are equally responsible for plan contributions as well as sharing funding gains and losses. Their Board representatives keep the focus on what matters – reliable pension income, competitive benefits and responsive pension services.

Value of representative Board

The representative nature of our Board is a constant reminder that policies and decisions must be in the best interests of all our stakeholders.

We are responsible for providing secure pension benefits to a broad spectrum of members who work in large cities and regional governments, small towns and villages, as well as school boards, libraries, hydro utilities, health care centres and children's aid societies. We are also responsible for ensuring these benefits are provided at reasonable cost to our members and employers.

The Board consists of six employee and six employer representatives, as well as one representative of the province. The employee representatives include a retiree. We are one of the few plans to have a pensioner on the Board.

Typically, a pensioner gets back the value of life-time contributions, plus interest, within five years of retiring.

Highly effective organization

Joint management, with day-to-day responsibility assigned to professionals, is a key reason why OMERS is a perennial top performer among major institutional investors in Canada. The Board oversees these professionals and ensures they deliver the pension promise, manage the assets prudently, and run a customer-focused organization that's getting better year by year. To ensure we consistently meet high governance standards, in 1999 we were the first Canadian pension plan to initiate a full board evaluation process, using the expertise of an independent management firm.

The results speak for themselves. As a public health nurse who is a member of the Plan, I am happy that a secure pension, protected against inflation, with benefits for my survivors, will be waiting for me at the end of my career.

Money in the pockets of members

OMERS has performed so well in recent years that we are returning more than $5 billion of surplus funds to active members, pensioners and local employers throughout Ontario. This re-investment in the community is helping to fuel Ontario's robust economic growth by putting money into the pockets of active members and pensioners, as well as the coffers of local employers at a time of fiscal strain.

However, sharing the surplus is not an easy task. We are committed to paying all members the pension benefits they are entitled to, based on their best five years of earnings and years of credited service. In practice, we have continually enhanced benefits beyond that. The Board reviews the surplus annually and will provide further improvements if possible.

All in all, we are pleased with joint management by employers and employees in overseeing a dedicated management team. The plan has always been fully funded and financially stable. Keeping it that way is the continuing mission of the members of the Board.

Susan O'Gorman

Susan O'Gorman
Chair

President's Report

OMERS has grown into one of the largest pension funds in Canada, earning investment income from across the country and around the world. The Fund achieved an enviable 15.2% investment return in 1999, with a four-year return of 14.8%, and entered the millennium with a healthy surplus.

The $5.6 billion surplus reflected a $2.7 billion increase in actuarial net assets to $31.0 billion, thanks primarily to strong stock markets and slower than anticipated growth in the cost of future pensions due to low inflation and modest salary increases.

We earned $4.6 billion in net investment income in 1999. The Canadian stock market, where we make most of our equity investments, was among the best performers in the world for a change. However, its stellar growth was almost entirely due to appreciation in two stocks, BCE and Nortel, whose share appreciation dominated the Toronto Stock Exchange.

We continued to deliver strong member service during a year of exceptional growth in pension administration. The workload soared as active members responded to the early retirement incentive program and pensioners inquired about plan enhancements under the surplus management initiatives. The continued amalgamation of municipalities throughout Ontario placed higher demands on our resources, and we were pleased to help employers with their pension services during a time of transition.

A major development at year-end was the introduction of our new Membership Services System, which will enable us to better respond to increased demand. Using advanced technology, the system is the bedrock on which we are building a much improved service delivery to employers, active members and pensioners. This system is described in greater detail in the Pension Services section.

Our priority, of course, is to make sure that all members receive the secure pension benefits to which they are entitled. To deliver the pension promise, we have developed a highly effective organization, managed by a team of professionals with expertise in investment products, pension services, plan administration and corporate leadership. The jointly-managed Board serves as a vital governance check in making sure management remains focused on maximizing investment returns, managing assets prudently, and providing active members, pensioners and employers with the services they need.

The OMERS pension can be viewed as the cornerstone of the member's retirement income, augmented by personal savings and government programs.

We are well positioned for the future and have developed with the Board a strategic plan designed to win OMERS greater autonomy from provincial control, strengthen our accountability, improve client services and better manage risk in all facets of our operations.

The demands on OMERS will continue to escalate as an aging membership enters retirement. The Plan's youngest current member will retire around 2035 and could collect pension benefits until 2070 or beyond. Consequently, ensuring the plan carries as much surplus as permissible under the federal tax legislation is critical to reassuring all members that the money will be there when they retire over the next three and a half decades.

Our job is to ensure that members receive a good pension at low cost to them, now and in the future. We are ready for the challenges of a new century in serving the pension interests of those we care about the most – our active members and pensioners.

I would like to thank the Board for its vision and leadership and our employees for their dedication and hard work. OMERS has achieved consistently high results on behalf of all our members because of their efforts.

Dale E. Richmond
President and CEO

Pension Services

The delivery of pension services to active members is the joint responsibility of OMERS and more than 1,000 local employers throughout Ontario. Serving the needs of retired members and their survivors is the sole responsibility of OMERS.

Our pension services faced unprecedented demands in 1999 as a result of widespread benefit improvements and the continued amalgamation of local governments. At the same time, we completed the first phase of a five-year plan to introduce the most modern pension management system in the industry.

$5.2 billion on Surplus Management Initiatives

Benefit Improvements ($1.2 billion)

100% guaranteed inflation protection

Change to CPP offset means larger OMERS lifetime pension

Over 35 years, contributions refunded

Restructuring Assistance ($1 billion)

Better early retirement provisions

Retire 15 years before normal retirement age

Cost Relief ($3 billion)

Contribution holiday

Latest benefit improvements

In May 1999 we introduced further plan improvements for active members, employers and pensioners, following consultation with representatives of these stakeholder groups. The most recent benefit enhancements are:

1.Guaranteed 100% inflation protection

Protecting against inflation has always been a priority for retirees. In the past, pensions were ”topped up” against inflation on an ad hoc basis, depending on the plan’s financial position. Now all current and future pensions are inflation protected up to 6% each year, a change that benefits about 75,000 pensioners immediately.

2.Up to 100% survivor benefits

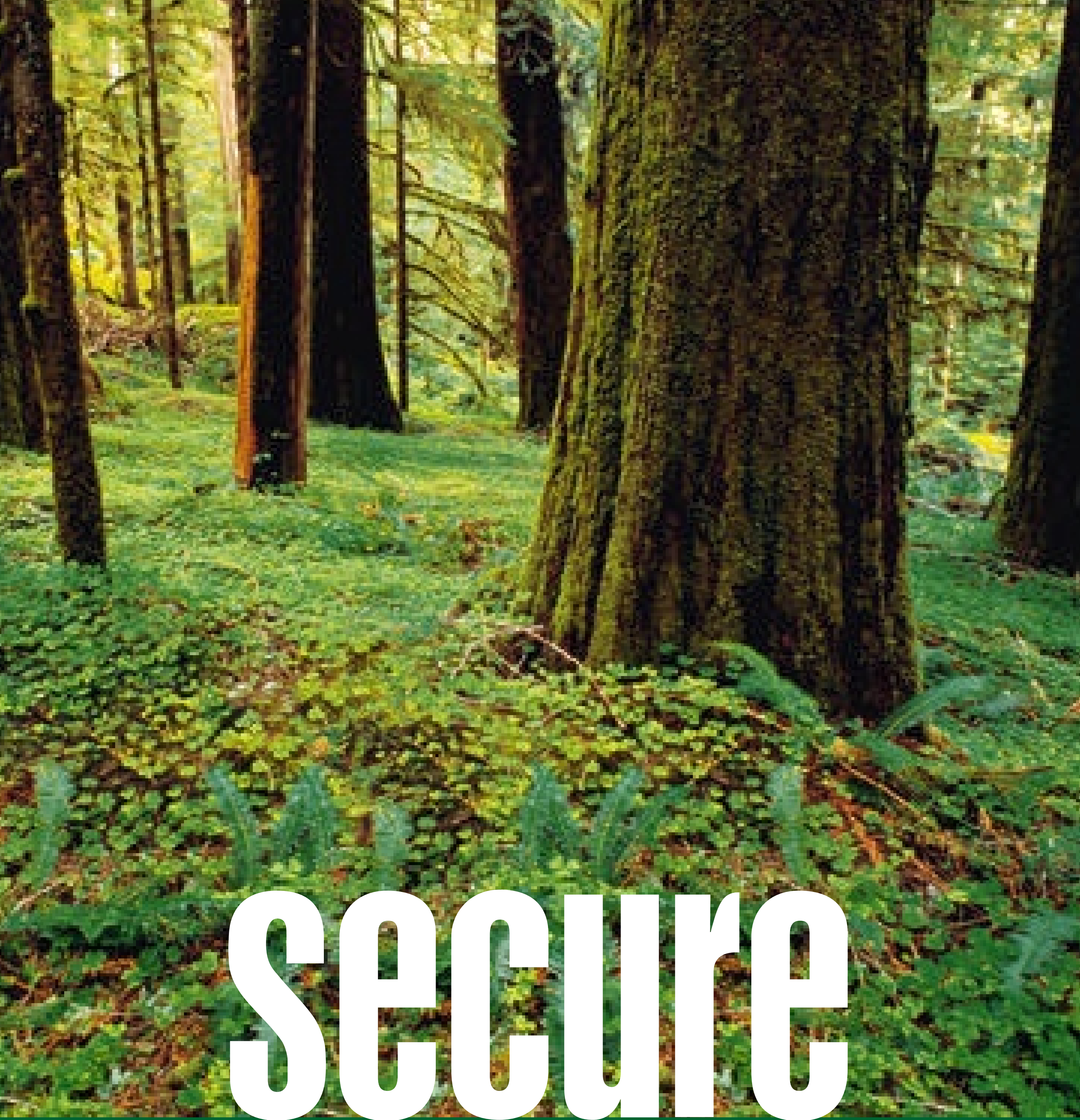
We have periodically improved pensions for surviving spouses since 1971. In 1998 they were increased to 66 2/3%, the maximum allowed by the federal *Income Tax Act*. Now surviving spouses are entitled to the 66 2/3% of the member’s pension, plus 10% per dependent child to the maximum of 100%. This change could benefit many of the 14,000 surviving spouses and will, of course, benefit all future ones.

3.Extension of the contribution holiday

The original contribution holiday from June 1998 until July 1999 now continues until the end of 2001. It is subject to an annual review by the Board to ensure sufficient surplus funds are available.

It is expected that contribution levels will be phased in after 2001, returning to normal on January 1, 2004. For most members eligible to retire at 65, the normal contribution level is 6% of salary up to the Year’s Maximum Pensionable Earnings (YMPE), and 7.5% beyond that. For 13% of active members, mostly police officers and firefighters, who are eligible to retire at 60, it is 7% of salary up to the YMPE and 8.5% beyond that. The YMPE for 2000 is $37,600.

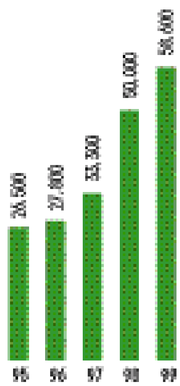
During the contribution holiday, members continue to earn credited service as if they were making contributions. Consequently, their pensions are not affected.



secure

Providing secure pensions for our members is our greatest priority

Phone Calls



The number of phone calls increased by 18% in 1999

4.Higher pensions

The Canada Pension Plan introduced a new pension calculation that effectively reduced benefits to our members. We responded by revising the CPP offset formula so that OMERS will pay higher lifetime benefits to members. The offset has been lowered from 0.7% per year of credited service at age 65 to 0.675%, and we have moved to a five-year average of the Year's Maximum Pensionable Earnings. These changes will be retroactive to January 1, 1999, but still await government approval.

5.Refund of contributions after 35 years of service

Members with more than 35 years service no longer have to pay into the pension plan and excess contributions have been refunded. This has meant an average payment of more than $9,000 to affected members.

6.Further enhanced early retirement incentives

Under the latest package, the early retirement incentive is improved to an 80 factor for those normally eligible to retire at 65 and a 75 factor for those normally eligible to retire at 60 if they retire between January 1, 1999 and December 31, 2001. As well, members can retire up to 15 years, rather than 10 years, before their normal retirement date.

Soaring business volumes

The introduction of new benefits, the rising demands for information by members approaching retirement and a larger membership were among the factors that increased our work volumes in 1999.

In May alone, when the latest surplus package was announced, we received more than 3,000 requests for quotes, compared to less than 600 a month, which is our normal average. For the full year, we received almost 59,000 phone calls (an 18% increase over 1998), and 16,269 requests for pension quotes (a 56% increase).

The higher business volumes caused a temporary backlog in regular service, but due to extraordinary staff efforts, by year-end the backlog was cleared. We will monitor service levels on an ongoing basis as we continue to upgrade our systems to meet increased demands.

Local government amalgamation

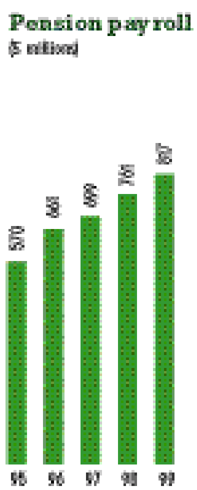
The introduction of the surplus management initiatives and early retirement incentives coincided with the restructuring of local governments that began in 1997 and is expected to continue for two more years.

OMERS is one of few pension funds that has a diverse employer base, adding to the complexity of plan administration. In 1999, about 450 local partners also had supplementary benefits that we administer. As local employers reduced their administrative staff, we assumed greater responsibility in helping them provide pension services to their employees.

Expanding membership

Despite municipal downsizing during the past two years, plan membership continues to grow as the province transfers services to local government, reaching more than 271,000 at the end of 1999.

In fact, OMERS attracted several new employers in 1999 – for example, GO Transit, with approximately 1,100 employees, and the Ontario Property Assessment Corporation, with 2,000 employees. By choosing OMERS, they cast a vote of confidence in our Plan.



The pensioner payroll rose by 7% in 1999

Pensioner services

The pension payroll was $817 million in 1999, a 7% increase over the previous year. The pensioner population grew by 4.8% to 75,336 people, including members receiving disability pensions, surviving spouses and dependent children.

New retirements were 5,719 in 1999, of which 3,563 were early retirements, versus 3,706 new retirements and 2,646 early retirements a year earlier.

All members receive a pension based on 2% of their best five years of earnings multiplied by their years of credited service to a maximum of 35 years. Members with 35 years of credited service no longer contribute. At age 65, the pension is adjusted to integrate with the Canada Pension Plan.

The pensions of individual members vary greatly, consistent with the inherent diversity of the OMERS plan. Our members include librarians, clerks, police and firefighters, children's aid workers and municipal politicians, who earn a broad range of salaries. The average salary is about $41,000 and the average pension of a member retiring in 1999 was $15,900.

growth

Our members receive a lifetime pension that grows to keep pace with inflation

The most modern plan administration

We constantly strive to improve service. In January 2000, we brought online our new Membership Services System to give OMERS the most modern pension administration in Canada.

Custom built from scratch to our specifications, the system enables us to deliver higher quality service at reduced costs, better manage the collection and verification of member information, eliminate manual processes, maintain data integrity and ensure flexibility in adapting to future requirements. For example, the new system will help to shorten the turnaround time for pension and termination quotes.

We are committed to better managing expectations through more effective communications, monthly monitoring and reporting on pressures and performance, and extensive staff training.

Maria enrolled in OMERS on January 1st, 1975 and when she retired 25 years later at age 65, she was earning about $40,000. Maria's contributions to the plan, with interest, total about $72,000. She will receive around $365,000 in pension benefits by the time she's 85.

Member communications

Our commitment to excellence in customer service includes open communications with employers, employees and pensioners.

Ongoing communications with active members and pensioners include newsletters, two open general meetings, the web site at www.omers.com, a phone information service at 1-800-387-0813 and hundreds of general information and pre-retirement meetings around the province.

A recent member survey indicated a need for us to make better use of technology, especially the Internet, in handling inquiries and providing member access to pension information. With that in mind, we introduced a retirement planner on our web site in 1999. Called the Estimator, the program is a pension industry leader. It enables members to project their pension up to retirement by changing various basic assumptions to identify different retirement options.

For employers, we produce newsletters, hold information meetings, conduct training seminars and provide a pension administration manual.

Investment Services

Almost 80% of a member's pension is funded by investments, with the remainder coming from contributions.

Since an OMERS member could pay into the plan for 35 years and receive a pension for another 25 to 30 years or more, our investment horizon must span several decades, and that influences our selection of investment assets. We invest in assets that offer the best prospect of long-term growth, although returns may fluctuate in the short term. By maintaining a long-term view, we can create the financial resources needed to assure all members of a guaranteed and fully-indexed pension.

Investment objective

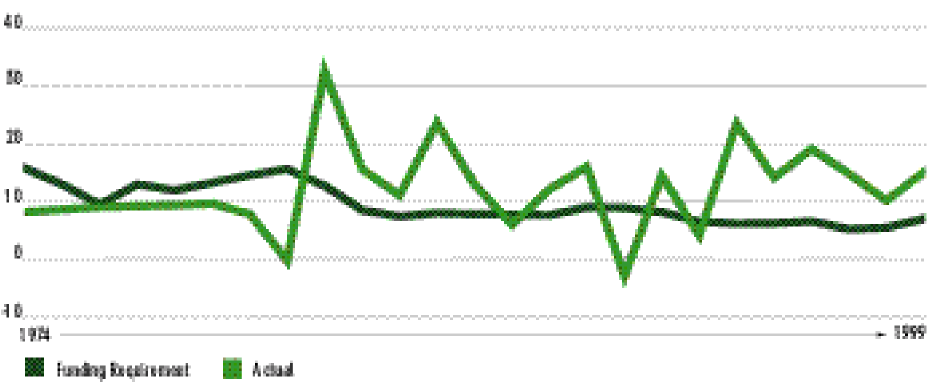
The Plan needs to earn on average 4.25% per year above the rate of inflation to meet the long-term cost of benefits. Although inflation in Canada has been less than 2% until recently, over the long term it is projected at 3% annually. As a result, the nominal investment target for the next several years is 7.25%.

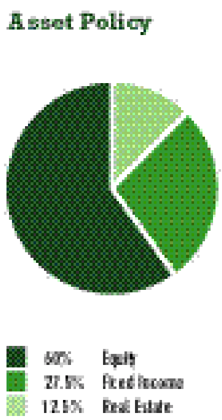
The investment objective assumes the Plan will maintain a surplus as a contingency reserve against the high risk of short-term declines in investment values and changes in actuarial assumptions. It also assumes stable contribution rates over the long term.

Investment approach

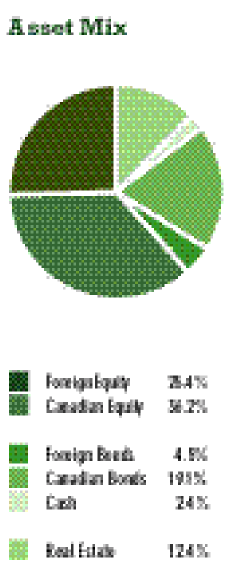
The Plan's financial strength and extremely long investment timeframe enable us to follow a prudent investment policy that emphasizes reliability and stability of returns by spreading risk over a variety of asset classes. If the Plan had more liabilities than assets, we would have to close the gap by earning higher returns over the long term while tolerating greater volatility in the short term. The Board would also have to consider raising contribution rates.

Investment Returns
Actual vs. Funding Requirement
(%)





We aim for the midpoint in our target range for each asset class



A pension fund's investment returns are determined by its asset mix policy and the behaviour of the markets in which those assets are invested. The returns of one pension fund, compared with another, primarily reflect different asset mix decisions that are based on the size and maturity of each plan's liabilities as well as the level of payroll contributions by plan members and employers.

Because the matching of assets with long-term liabilities is the driving force behind a pension plan's investment policy, performance is very much a long-term perspective. A pension fund need not be overly concerned about short-term fluctuations in market values because it is not investing for the short term.

Asset mix

The most important investment policy decision is setting the asset mix, which directly influences fund returns. This involves choosing investments that best match the plan's liabilities – the money needed to pay future pensions. A comprehensive review of the asset mix policy is normally undertaken every four years, with the last one completed in early 1997.

OMERS has three broad asset classes, each with a different risk/reward profile and timeframe for optimum performance:

- Equities, or stocks, are highly volatile in the short term, but are expected to produce better returns than bonds and real estate over the long term. For publicly-traded stocks, the ideal investment timeframe is three to five years, while for private equity it can extend to 10 years.
- Bonds are less risky and volatile than stocks, and provide steady income as well as the return of the original capital at maturity. The investment timeframe is most often five to 10 years.
- Real estate is an effective hedge against inflation, offsetting the indexed nature of pension benefits, and tends to deliver superior returns over a horizon of at least 10 years and usually much longer.

Our asset mix policy reflects the different performance expectations of these asset classes. Within each class, risk is diversified over several portfolios based on industries and geographic markets that move on different growth cycles. For example, approximately 30% of the fund's investments at market value were exposed to markets outside Canada in 1999 through direct investments and derivative contracts. In recent years, foreign stock and bond markets have outperformed Canadian markets. In 1999, however, Canadian markets performed as well as or better than U.S. and overseas counterparts.

organization

Our pension plan is well-managed, financially sound and has a proven track record

Equities

Our equity investing recognizes that when we buy stocks, we buy an ownership position in companies. At the end of 1999, we had $19.6 billion invested in stocks, of which 62% was in Canadian public and private companies. We owned on average almost 2% of the market capitalization of the companies listed in the TSE 300 index on the Toronto Stock Exchange.

We follow three strategies for equity investing, with the emphasis on active rather than passive management.

Actively managed stocks: We have created one of the largest actively managed stock portfolios in Canada. At the end of 1999, it contained 371 stocks valued at $10.4 billion. The portfolio is 80% managed by staff and 20% by external managers with expertise in particular market sectors. We invest in growth companies where large capital gains can be achieved, though at higher risk, over the long term.

Some institutional investors, such as mutual funds, focus on quarterly and annual investment returns and trade actively to maximize returns. We invest over several market cycles and principally buy corporate shares to hold rather than trade.

OMERS diversifies its portfolio by type of security, investment style, industry, geographic region, country and time to maturity.

Outside Canada, we have a $5.4 billion portfolio that is managed by several external managers and consists of 1,334 stocks selected from established indices in the United States and internationally. We believe in investing in different economies around the world, although we select individual companies, not countries. Approximately 50% of our foreign equity exposure is in the United States, with the remainder split between Europe and the Far East.

While equities create wealth over the long haul, the Canadian market represents only 2% of world capital markets. Consequently, we are paying increased attention to the global nature of capital markets by favouring companies with growing international operations.

Indexed stock funds: Buying shares to replicate a recognized stock index is a cost efficient method for large investors like OMERS to invest in equities. Index funds are expected to match the performance of their respective index, less transaction costs.

In Canada, we invest in the shares of the companies that make up the TSE 300 Index, such as major banks, insurance firms, technology companies, consumer goods producers and retailers, and resource companies. In 1999, we had $1.3 billion in Canadian stock index funds.

Outside Canada, we focus on the S&P 500 index of companies in the United States and had $1.7 billion invested in this index in 1999.

Merchant banking: Investing in private companies diversifies our assets beyond the extreme valuations and volatility of public markets. There are numerous private firms in Canada and around the world that can benefit from our financial and strategic support. They offer good capital growth potential over several years, and we eventually realize gains through a public share offering or the sale of our interest to management or private investors. We are now a major merchant bank funding source in Canada and at the end of 1999 had placed $849 million in private equity and $216 million in private debt.

Fixed-income investments

Traditionally we have invested equally in short-term, mid-term and long-term bond portfolios, and a large mortgage portfolio. With Canadian governments reducing their borrowings, we are concentrating on expanding our investments in corporate bonds. Recently, we changed our approach by forming a core $4.1 billion bond portfolio, which provides us with increased internal flexibility to take opportunistic positions. As a result, we reduced the number of Canada bond issues in which we participate from roughly 54 to 33. Similar consolidations have occurred in provincial issues. The net effect should be higher returns from fixed-income investments.

Derivatives

Derivatives are financial agreements between OMERS and counterparties, such as banks, insurance companies and investment dealers. These contracts take their value from an underlying asset, such as a group of stocks or bonds, or from underlying interest rates and currency exchange rates. OMERS was one of the first Canadian pension funds to use derivatives, starting in 1995, to rebalance and refine the asset mix and to facilitate a better matching of assets and liabilities.

Derivatives enable us to maximize exposure to foreign bond and equity markets, provide greater liquidity than owning the underlying assets, are a cost effective form of investing, and enhance overall returns. They also facilitate efficient risk management among different types of assets and different countries. Our derivative contracts are discussed further in Note 4 to the financial statements.

The notional value of derivative contracts in 1999 was $4.4 billion, compared with $4.0 billion a year earlier. Our net credit risk exposure from derivatives at the 1999 year-end was $127 million, or 0.4% of the fund.

Good corporate governance practices are important in focusing corporate managers on creating long-term shareholder value.

The rapid development of derivative markets worldwide has increased opportunities. We have extensive monitoring and control processes that give us the confidence to expand our participation in derivative-based foreign bonds, and Canadian and foreign equities. Consequently, we increased the allowable allocation to derivatives from 15% to 30% of total invested assets effective in 2000.

Real Estate

Real estate is one of the best investment assets available in matching our liabilities. It generates superior returns over multiple decades, acts as a hedge against inflation (a long-term concern to a plan providing indexed pensions), produces regular cash flow from the rental income stream, and has lower volatility than stocks and bonds. The cash flow from real estate in 1999, for example, was sufficient to pay 27% of all pension benefits.

We have built one of the largest real estate investment portfolios in Canada, valued at $4.4 billion. The portfolio consists of 92% direct property ownership and 8% in real estate equity.

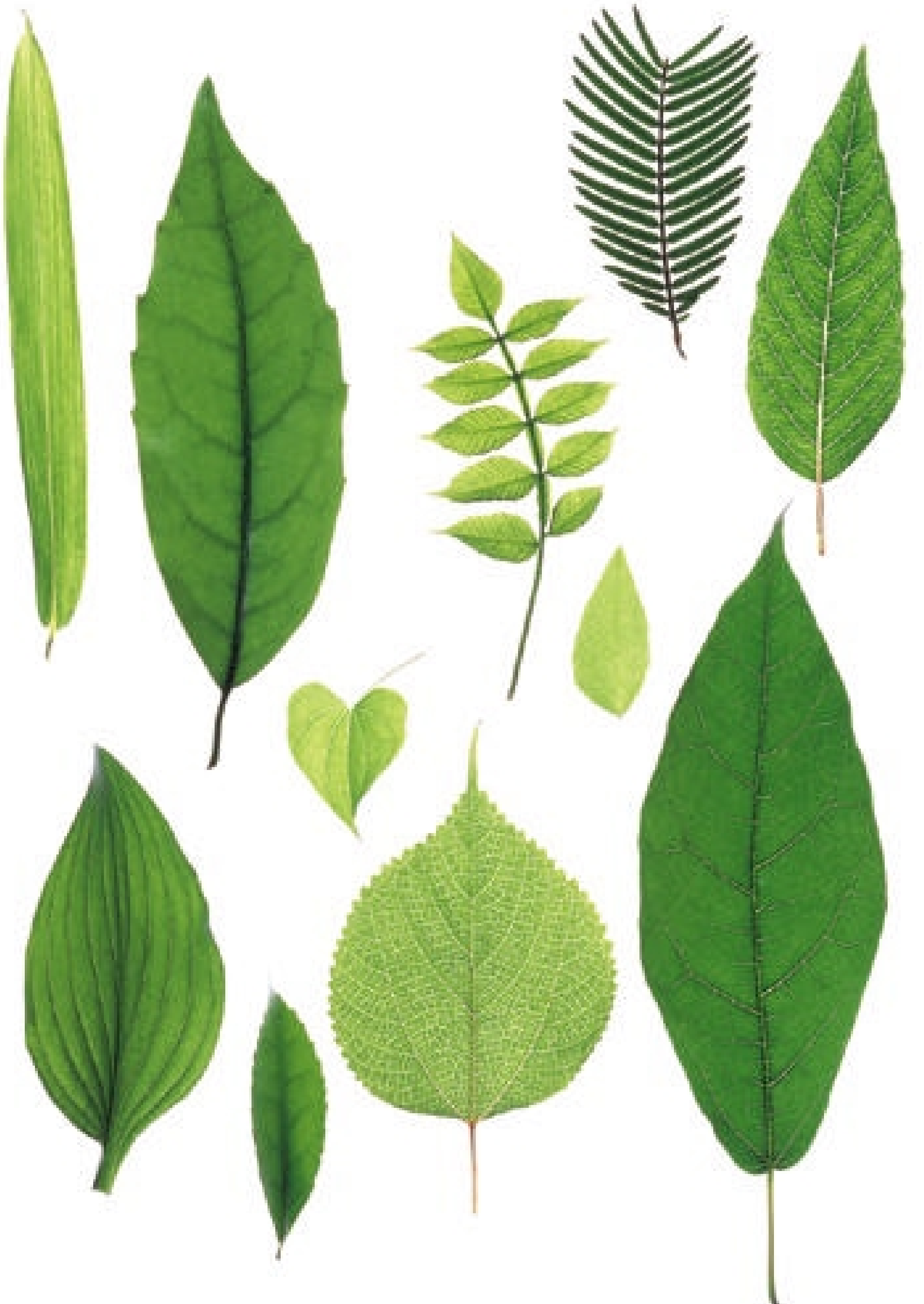
The 75 directly owned properties are principally "best in class" office buildings and large shopping centres in major urban markets across Canada. They include 30 office buildings purchased from the Royal Bank of Canada in 1999.

Corporate governance

We own shares in more than 1,200 companies with significant holdings in about 800 firms. It is important to us that the management of companies in which we invest focus their efforts on creating long-term shareholder value. Research has shown that companies with good corporate governance tend to generate better returns.

Good corporate governance practices include setting out the responsibilities and expected performance of management and its accountability to the shareholders. We assist companies in maintaining this focus in the way we vote the shares we own. We have published Proxy Voting Guidelines (also available on our web site) so that corporate managers and other shareholders understand how we are likely to vote on specific issues that affect shareholder value.

OMERS believes that public companies should provide much greater disclosure than is currently required by Canadian and U.S. regulators so that individual investors have access to information as readily as institutional investors.



diversity

Our jointly managed Board balances the diverse needs of our members

Financial Performance

Change in net assets

During the year, $3.6 billion was added to the Plan's net assets, compared with $2.3 billion in 1998, bringing total net assets to $34.9 billion. The entire growth in net assets in 1999 was the result of $4.6 billion in net investment income, compared with $2.9 billion a year earlier. Strong Canadian and foreign equity returns contributed much to the improved performance.

No income for current service was received from employers and active members in 1999 as they continued to enjoy the contribution holiday that came into effect in August 1998 under the surplus management initiative.

Net assets were decreased by $1 billion in pension benefit payments, compared with $920 million in 1998, and $70 million in administrative costs, compared with $47 million a year earlier (administrative expenses are tabulated in note 11 to the financial statements). The 9% growth in pension benefits was principally caused by higher retirements in response to early retirement incentives. The introduction of the new Membership Services System to better manage plan administration was the major reason for higher operating costs.

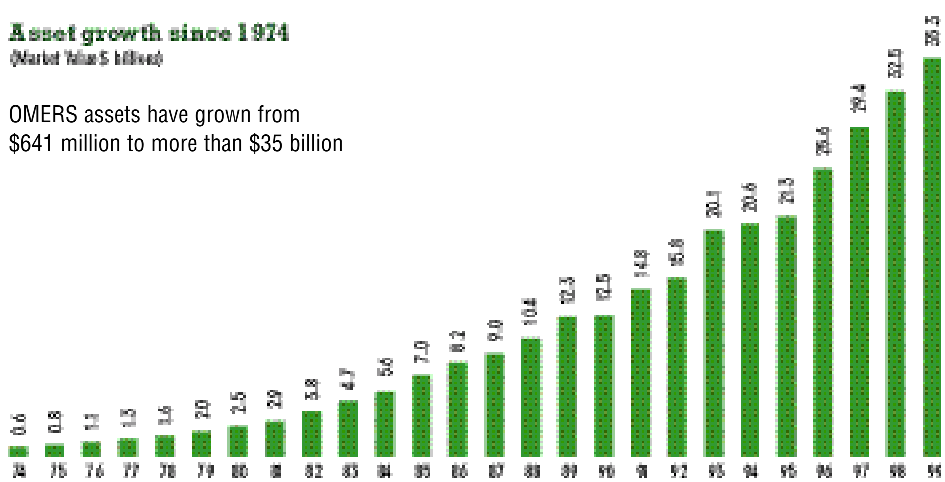
The plan ended 1999 with $34.9 billion available for benefits, a gain of $3.6 billion during the year.

Fund Performance

OMERS was empowered to pursue an active investment policy in 1974 and has gradually developed the asset mix that exists today. Since 1974, the fund has achieved a compounded annual rate of return of 11.5%, surpassing the long-term investment objective that the plan needs to earn consistently to maintain a fully funded position.

Asset growth since 1974
(Market Value $ billions)

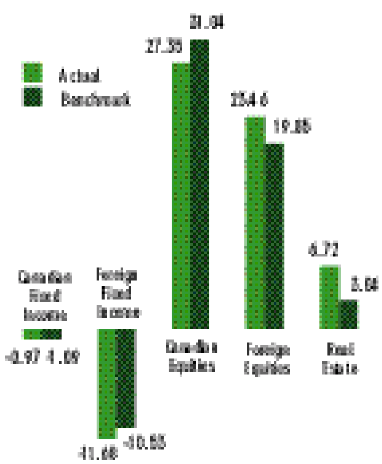
OMERS assets have grown from
$641 million to more than $35 billion



Returns are also measured in the short term to monitor performance in volatile markets. If short-term returns deviate unusually from market results, we can refine the asset mix to better balance fluctuations over the long term.

In 1999, our annualized rate of return for four years (a standard in the pension fund industry) was 14.8% and for one year 15.2%. These results compare favourably with the total long-term funding requirement (4.25% + inflation).

Returns vs. benchmarks by class
(%)



Returns fluctuate within each class, but year after year, OMERS strong performance ensures secure pensions for our members

Asset class performance vs. benchmarks

Canadian equity portfolios earned 27.4% in 1999, compared with 31.0% for their benchmark (a blend of the TSE 300 index and the Nesbitt Burns Small Cap Index). The underperformance against the benchmark was due to an underweighting in Nortel, which accounted for a significant part of the total TSE 300 return in 1999. As a pension plan, we maintain a diversified portfolio, limiting the amount we invest in any one holding.

Merchant banking had exceptional results for the third consecutive year with a 29.3% return, versus 25.5% for its benchmark (an adjusted TSE 300 Index return).

OMERS rates of return vs. benchmarks

	1-Year		4-Year		10-Year	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Fixed Income						
Canadian	-0.97	-1.09	7.34	7.23	9.72	10.02
Foreign	-11.68	-10.53	4.89	5.33	–	–
Equities	25.77	26.41	19.06	19.17	12.29	11.97
Canadian	27.35	31.04	18.34	17.46	11.30	10.50
Foreign	23.46	19.85	19.30	20.89	15.03	14.58
Real Estate	6.72	3.04	11.87	9.94	5.22	3.75
Total Fund	15.15	6.84	14.79	5.86	11.09	6.35

Foreign equity portfolios earned 23.5% to exceed 19.9% for the benchmark (based on the Russell 3000 Index in the United States and the Goldman Sachs Global Index, excluding Canada and the U.S.). The superior results reflected the success of our external fund managers in Europe and the Pacific Rim.

Canadian fixed-income portfolios had a negative 1.0% return, versus a negative 1.1% for the benchmark (the Scotia Capital Bond Universe Index). We beat the benchmark by earning higher returns from our large mortgage portfolio and negotiating improved returns on private debt.

With a negative 11.7% return, foreign fixed-income investments underperformed their benchmark (the JP Morgan Global Bond Index, excluding Canada), largely because of the performance in Japan.

The real estate portfolio had a good year with a 6.7% return, compared with 3.0% for the benchmark. We introduced a new benchmark in 1999 based on 85% of the CPI + 4.75%, and 15% of the TSE 300 real estate sub-index. Property values showed minimal appreciation in 1999 and real estate equity declined by 15%. This was offset by strong growth in cash flow from property investments.

Growth in liabilities

The actuarial present value of accrued pension liabilities totaled $25.3 billion at the end of 1999, a 13.7% increase over the previous year.

The Plan's financial obligations to active members, pensioners and former members have grown substantially in recent years. This trend will continue as the "baby boom" generation of members enters retirement. Although wage growth has been relatively flat recently, members have been retiring earlier than expected by taking advantage of the Plan's early retirement enhancements.

Cash flow

We received $1.3 billion in cash flow during 1999 from interest, dividend, and rental property income, plus contribution transfers by members joining OMERS from other plans and supplementary payments by employers. In addition another $2.0 billion was realized on disposal of investments. This cash flow more than offset the $1.0 billion paid out in benefits. The Board reviews the effect of the contribution holiday on cash flow annually. Investment income is expected to continue to exceed benefit payments during the remainder of the contribution holiday.

Financial Position

The cost of all current and future pensions is estimated on a regular basis to ensure the plan has enough money to keep the pension promise.

An independent actuary estimates the value of assets and liabilities, as well as the cost of accruing benefits, based on various economic and demographic assumptions. These estimates are prepared every year and extrapolated over the next 20 years. They assist OMERS in making decisions about the use of surplus funds.

Conservative long-term assumptions are made about three key factors – investment returns, which affect the value of assets, and inflation and salary increases, which affect the value of future benefits.

Valuing the assets

The market, however, determines the value of assets. These values can be highly volatile, with a single year's results being unusually high or unusually low. The actuary performs a calculation to smooth changes in the market value of assets for the current year plus the four preceding years to produce an adjusted market value. This smoothing of asset values provides a more objective picture of the long-term relationship of assets to liabilities.

Valuing the liabilities

To value the liabilities, the actuary examines the plan's demographics – the age, length of service, salary ranges, full-time versus part-time employment, and other factors of the diversified membership. Information is processed on active members, former members who should have entitlements in the plan, and pensioners, surviving spouses and children who receive benefits. In addition, mortality, disability and termination of employment data are factored in. OMERS collects this member data annually from more than 1,000 employers.

Change in surplus

The present value of accrued liabilities is deducted from the actuarial value of assets to calculate the actuarial surplus. From this, 5% of liabilities is set aside in a funding stabilization reserve as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations, such as accelerated early retirements.

Statement of Changes in Surplus

($ millions)	1999*	1998
Surplus, beginning of year	5,921	4,654
Increase in net assets available for benefits	3,550	2,272
Change in actuarial asset value (smoothing reserve)	(822)	175
Increase in actuarial value of net assets available for benefits	2,728	2,447
Less: net increase in accrued pension benefits	3,047	1,180
Surplus, end of year	5,602	5,921

* Projection based on 1998 valuation and changes in assets and benefits during 1999.

Actuarial Cost Certificate

As at December 31, 1999

For the Ontario Municipal Employees Retirement Board

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1998 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of OMERS as at December 31, 1998 and to examine the adequacy of the ongoing contribution structure to maintain OMERS in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the registered pension plan benefits disclosed total going concern Actuarial Liabilities of $22,283.426 million in respect of benefits accrued for service to December 31, 1998, prior to recognition of the plan amendments known as the "Board's Package of Surplus Management Proposals". The Actuarial Assets at that date were $28,237.059 million indicating a going concern Actuarial Surplus of $5,953.633 million, of which $1,114.115 million has been allocated to a Funding Stabilization Reserve by the Board. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 1998 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was $32.852 million, leaving an overall Actuarial Surplus of $5,920.781 million.

If the Board's Package of Surplus Management Proposals, which were effective January 1, 1999, were to be recognized as of December 31, 1998, the going concern Actuarial Surplus in respect of the registered pension plan would be reduced to $4,799.835 million. Similarly, the net actuarial liability in respect of the full earnings pension benefits would be increased to $35.477 million, leaving an overall Actuarial Surplus of $4,764.358 million.

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations, in conjunction with the Actuarial Surplus, are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the funded position of the Plan assuming it had been wound up on December 31, 1998. In our opinion, the value of the Plan assets would have been greater than the actuarial liabilities if the Plan had been wound up on that date.

We have considered the likely development of the Actuarial Liabilities during 1999. Further, we have calculated the Actuarial Assets at December 31, 1999. In our opinion, the assets of the Fund at December 31, 1999 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date on both a going concern basis and a wind up basis.

The actuarial valuation of OMERS as at December 31, 1998 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

* the data are sufficient and reliable for the purposes of the valuation,
* the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
* the methods employed in the valuation are appropriate for the purposes of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.
The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted
Watson Wyatt & Company

Martin Brown

Martin J.K. Brown, F.I.A.
Fellow, Canadian Institute of Actuaries
March 23, 2000

Auditors' Report

To the Ontario Municipal Employees Retirement Board

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1999 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 1999 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada

March 23, 2000

Consolidated Financial Statements

Consolidated Statement of Net Assets

(Millions)

As at December 31,	1999	1998
Assets		
Investments (note 3)	$ 35,278	$ 32,529
Accrued income	133	139
Amounts due from pending trades	360	158
Other assets (note 5)	23	30
Total Assets	35,794	32,856
Liabilities		
Due to administered pension funds (note 6)	502	437
Amounts payable from pending trades	280	916
Other pension liabilities	82	123
Total Liabilities	864	1,476
Net assets (note 7)	$ 34,930	$ 31,380

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board

Susan O'Gorman
Member

Peter Leiss
Member

Consolidated Statement of Changes in Net Assets

(Millions)

For the year ended December 31,	1999	1998
Increases in net assets		
Contributions (note 8)	$ 27	$ 372
Net investment income (note 9)	4,598	2,867
Total Increase	4,625	3,239
Decreases in net assets		
Benefits (note 10)	1,005	920
Administrative expenditures (note 11)	70	47
Total Decrease	1,075	967
Increase in net assets	3,550	2,272
Net assets at beginning of year	31,380	29,108
Net assets at end of year	$ 34,930	$ 31,380

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

Year ended December 31, 1999

General

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the *Ontario Municipal Employees Retirement System Act* (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the Ontario *Pension Benefits Act*, Registration #0345983.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The *Pension Benefits Act* (PBA) of Ontario requires that participating employers fund the benefits determined under the plan. In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability waivers and pensions, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the *OMERS Act and Regulation* or by contacting OMERS.

Note 1 – Summary of significant accounting policies

Basis of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

OMERS holds certain investments through subsidiaries and various other corporate structures. Subsidiaries are entities controlled by OMERS through ownership of a majority of the voting shares. Other corporate structures where there is co-ownership in the economic activities of the entity are jointly controlled by OMERS together with various partners through a proportionate ownership of the voting shares.

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of entities where there is co-ownership. Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

Note 1 – Summary of significant accounting policies (continued)

Investments

Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. As such, publicly traded securities are recorded as of the trade date of the transaction.

Investments are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is reflected in net investment income in the statement of changes in net assets as unrealized appreciation/depreciation of investments.

Fair values of investments are determined as follows:

i) Short-term deposits are recorded at cost which, together with accrued interest income, approximates fair value.

ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.

iii) Real estate, composed primarily of income producing properties, is generally valued through an appraisal process which utilizes discounted future cash flows. In generating future cash flows certain assumptions are made with respect to future economic conditions and rates of return. The appraisal process is carried out annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. Jones Lang LaSalle Real Estate Services and Colliers Macaulay Nicolls Inc. are the firms of independent appraisers engaged for the 1999 valuation process.

The fair value of real estate, which has been recently acquired, is based on the purchase price.

iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk and term to maturity.

v) Derivatives, including interest rate swaps, bond index swap contracts, equity index swaps, equity swap contracts, equity index futures contracts and foreign exchange forward contracts, are valued at year-end market prices determined by quoted market values where available or discounted cash flows using current market yields, where quoted market values are not available.

Investment income includes dividends, interest and operating income from real estate and other subsidiaries, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Non-Investment Assets and Liabilities

The fair value of contributions receivable, accrued income, amounts due from pending trades, other assets, amounts due to administered pension funds, amounts payable from pending trades and other pension liabilities approximate their carrying amounts.

Foreign Currency Translation

Certain OMERS investments are denominated in various foreign currencies. The fair values of such investments are included in the statement of net assets and are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in unrealized appreciation/depreciation of investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss is recognized in realized gains on disposal of investments.

Note 2 – Responsibilities of the actuary and external auditors

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the OMERS Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are also appointed by the OMERS Board. Their responsibility is to report to the OMERS Board regarding the fairness of presentation of OMERS net assets, and changes in net assets as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuary for the actuarial liabilities as disclosed in the notes to the financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Note 3 – Investments

	1999		1998	
(Millions)	Fair Value	Cost	Fair Value	Cost
Interest Bearing Investments				
Cash and short-term deposits	$ 2,462	$ 2,462	$ 4,298	$ 4,298
Canadian bonds and debentures	6,071	6,179	5,860	5,376
Non-Canadian bonds	1,573	1,689	1,547	1,391
Private debt	216	224	175	173
Mortgages	1,244	1,259	1,067	1,006
	$ 11,566	$ 11,813	$ 12,947	$ 12,244
Non-Interest Bearing Investments				
Canadian equities	11,603	7,304	9,680	7,078
Non-Canadian equities	7,134	4,678	5,399	3,520
Real estate	4,126	4,115	3,995	3,916
Resource properties	111	98	69	83
Canadian private equities	509	297	207	137
Non-Canadian private equities	229	183	232	169
	$ 23,712	$ 16,675	$ 19,582	$ 14,903
Total Investments	$ 35,278	$ 28,488	$ 32,529	$ 27,147

Note 3 – Investments (continued)

At December 31, 1999, the Fund held the following investments, each having a fair value or cost exceeding 1% of the fair value or cost of total investments:

	1999 Aggregate			1998 Aggregate		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Canadian interest bearing investments	6	2,134	2,206	1	421	391
Canadian equities	2	2,612	531	4	1,618	612
Real estate properties	3	1,016	915	3	1,266	1,111
	11	5,762	3,652	8	3,305	2,114

Canadian securities where the individual issue has a cost or fair value exceeding 1% of the fair value or cost of total investments are comprised of interest bearing securities issued by the Royal Bank of Canada and the Government of Canada and equity securities issued by BCE Inc and Nortel Networks Corporation. Real estate investments above include ownership interest in the following properties, all of which are located in Ontario: Royal Bank Plaza, Square One Shopping Centre and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through entities involving joint venture and co-ownership arrangements. The fair value of OMERS proportionate share in these assets was $2,658 million at December 31, 1999 (1998 – $1,255 million). OMERS share of the net income earned by these entities was $151 million for the year ended December 31, 1999 (1998 – $86 million) and is included in net investment income from real estate.

OMERS has guaranteed certain of the obligations of the entities where it is involved on a co-ownership basis and, in certain cases, is contingently liable for the obligations of its associates. The assets of these entities are available and are sufficient for the purpose of satisfying such obligations.

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 1999, securities with an estimated fair value of $2,579 million (1998 – $2,438 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of $2,708 million (1998 – $2,560 million).

Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility and credit risk. OMERS has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments; require diversification of investments within categories; and set limits on the size of exposure to individual investments and counterparties. In addition derivative financial instruments are used, where appropriate, to assist in the management of these risks (see note 4).

Foreign Currency Risk

Foreign currency exposure arises from the Fund holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The Fund's holdings by geographical location of the issuer and by currency as at December 31 are as follows:

	Geographical		Currency	
(Millions – Canadian dollar equivalent)	1999	1998	1999	1998
Canada	$ 25,047	$ 23,133	$ 21,873	$ 23,600
United States of America	4,677	4,075	8,458	4,425
United Kingdom	1,004	911	695	714
Euro zone (1)	1,962	2,102	1,900	2,027
Other Western Europe	596	546	493	499
Japan	1,419	968	1,401	792
Other Pacific	262	296	276	282
Emerging Markets	311	498	182	190
	$ 35,278	$ 32,529	$ 35,278	$ 32,529

Canadian assets backing derivatives have been allocated to the geographic location/currency of the underlying asset or index from which the derivative contract derives its value.

(1) Euro zone includes the eleven member countries which merged their individual currencies into one currency known as the Euro effective Jan 1, 1999. The 1998 currency exposure for the Euro zone is the Canadian Dollar equivalent of the legacy currencies for these countries.

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuation of interest rates. The risk arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long duration of pension benefits, OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively asset values are affected more by equity markets and short-term changes in interest rates. The fixed income portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

Term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities, are as follows:

	1999					1998	
	Term to Maturity						
(Millions)	Within 1 Year ($)	1 to 5 Years ($)	Over 5 Years ($)	Total ($)	Average Effective Yield	Total ($)	Average Effective Yield
Cash and short-term deposits	2,462	–	–	2,462	5.05%	4,298	5.14%
Canadian bonds and debentures	355	1,654	4,062	6,071	6.38%	5,860	5.22%
Non-Canadian bonds	11	734	828	1,573	5.48%	1,547	4.15%
Private debt	4	40	172	216	7.98%	175	8.05%
Mortgages	92	624	528	1,244	8.12%	1,067	6.95%
Total	2,924	3,052	5,590	11,566	6.19%	12,947	5.25%

Average effective yield represents the weighted average rate required to discount future cash flows to current market value.

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 20.2% (1998 – 8.3%) of the Canadian bonds and debentures. Non-Canadian bonds are liquid and marketable government and supra national debt issues consisting primarily of the 12 member countries of the Organization for Economic Cooperation and Development.

Credit Risk

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 4.

Note 4 – Derivative financial instruments

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset mix management and to assist in the management of financial risks, including interest rate volatility and foreign exchange risks. In certain circumstances derivatives are used to increase returns or to replicate investments synthetically.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. OMERS enters into derivative investment activities in combination with the cash and short-term deposits portfolio. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- Swaps, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.
- Forwards and futures, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- Notional value: represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- Replacement cost: represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

	1999				1998		
		Fair Value				Fair Value	
(Millions)	Notional Value	Gross Assets	Gross Liabilities	Credit Risk (replacement cost)	Notional Value	Gross Assets	Gross Liabilities
Interest rate swap contracts	$ 569	$ 4	$ –	$ 4	$ –	$ –	$ –
Bond index swap contracts	56	–	–	–	–	–	–
Equity index swap contracts	887	96	(1)	96	917	84	–
Equity swap contracts	75	17	–	17	–	–	–
Equity index futures contracts	1,675	7	(3)	7	2,495	12	(1)
Foreign exchange forward contracts	1,140	3	(13)	3	571	7	(9)
Total	$ 4,402	$ 127	$ (17)	$ 127	$ 3,983	$ 103	$ (10)

All derivative instruments mature within one year except interest rate and bond swap contracts with a notional value of $417 million (1998 – nil) that mature between 2000 and 2002.

Note 5 – Other assets

(Millions)	1999	1998
Long term receivables [1]	$ 15	$ 21
Other	8	9
	$ 23	$ 30

(1) Under the terms of the *OMERS Act and Regulation* certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long-term receivables to be paid, with interest, over a period not to exceed fifteen years. The fair value of the long-term receivables, which are valued using discounted cash flows using current market yield, is approximately $15 million (1998 – $21 million).

Note 6 – Due to administered pension funds

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with income based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

Note 7 – Net assets

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long-term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	1999	1998
Assumed rate of inflation	3.0%	4.0%
Assumed rate of pensionable earnings increases	4.5%	5.5%
Assumed actuarial rate of return on plan assets	7.0%	7.5%

The extrapolation of the actuarial valuation to December 31, 1999, which follows, takes account of amendments made to the plan up to December 31, 1999. The 1998 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1998.

(Millions)	1999	1998
Fair value of net assets at end of year*	$ 34,921	$ 31,372
Adjustment to the fair value for actuarial purposes	(3,957)	(3,135)
Actuarial value of net assets at end of year	30,964	28,237
Actuarial present value of accrued pension benefits at beginning of year	22,283	21,105
Ad hoc increases to pension benefits	–	18
Interest accrued on benefits	1,893	1,582
Benefits accrued	966	908
Benefits paid	(1,005)	(920)
Plan amendments	3,498	–
Changes to actuarial assumptions	(1,848)	–
Experience gains	(455)	(410)
Actuarial present value of accrued pension benefits at end of year	25,332	22,283
Full earnings pension assets	9	8
Full earnings pension liability	39	41
Net liability of full earnings pension	30	33
	25,362	22,316
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	$ 5,602	$ 5,921

* Excludes full earnings pension assets

A portion of the excess of actuarial value of net assets over the actuarial present value of accrued pension benefits has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve for 1999 is $ 1,267 million (1998 – $1,114 million).

The full earnings pension benefit was set up within the *OMERS Act and Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*.

In May 1999, the Ontario Government approved a package of surplus management proposals put forward by the OMERS Board. The following benefit changes were included, with retroactive effect from January 1, 1999:

- The contribution holiday, which is subject to annual review, was extended to December 31, 2001, after which time regular contributions are to be resumed in stages over a three-year period.
- The age plus years of service factor which entitles members to an unreduced early retirement pension was reduced from 90 for Normal Retirement Age 65 members and 85 for Normal Retirement Age 60 members to 80 and 75 respectively for members who retire on or after January 1, 1999 and on or before December 31, 2001 (factors of 85 and 80 respectively were already in effect for members who retire on or after November 30, 1997 and on or before December 31, 2002).
- Eligibility for early retirement was extended from members within 10 years of normal retirement age to members within 15 years of normal retirement age, provided retirement occurs on or after January 1, 1999 and on or before December 31, 2001.
- Guaranteed inflation-based indexing of benefits was increased from 70% to 100% of the annual increase in the Consumer Price Index.
- The maximum amount of pension a surviving spouse with eligible children can receive has increased from 75% to 100% of the deceased member's lifetime pension.
- Contributions made by members prior to January 1, 1992 but after they had completed 35 years of credited service will be refunded, with interest.
- The Canada Pension Plan offset which applies at age 65 has been reduced from 0.7% of pensionable earnings up to the average YMPE to 0.675%, increasing the lifetime pension. The averaging period for the YMPE used to calculate the offset has been increased from three to five years.

The changes to the Canada Pension Plan offset calculations cannot be implemented until amendments to the *Municipal Act* have been made. When implemented, they will also be applied with retroactive effect from January 1, 1999. Allowance for the increased benefits due to the changes in the offset calculation has been included in the actuarial present value of accrued benefits at December 31, 1999.

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits is presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act* of Ontario, a wind-up valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. The actuarial present value of accrued pension benefits, excluding the full earnings pension benefits, was estimated to be $28,638 million as at December 31, 1999 (1998 – $26,464 million). Under the solvency valuation, net assets are based on their fair value. As at December 31, 1999, the fair value of net assets excluding the full earnings assets was $34,921 million (1998 – $31,372 million). A reasonable allowance for the expenses of winding up the plan would not significantly reduce the assets available for benefits.

Note 8 – Contributions

(Millions)	1999	1998
Members	$ –	$ 176
Employers, current service	–	176
Employers, long-term receivables and interest thereon (note 5)	5	8
Transfers from other pension plans	8	6
Other contributions	14	6
	$ 27	$ 372

Effective August 1998, a contribution holiday for both members and employers was put into place. The contribution holiday was reviewed in 1999, and an extension to December 31, 2001 was approved, subject to annual review. These initiatives were introduced as part of the surplus management proposals discussed in note 7.

Note 9 – Net investment income

a) Net Investment Income Before Allocating the Effect of Derivative Contracts

Investment income before giving effect to derivative contracts and before allocating the realized and unrealized gains/(losses) for the period ended December 31, is presented below. Income from assets backing derivative financial instruments is reported in the particular backing asset category. Investment operating expenses of $28 million (1998 – $30 million) are netted against the particular portfolio where the costs were incurred. Income from derivative financial instruments of $300 million (1998 – $399 million) is included in the realized gains/losses on disposal and the unrealized appreciation/depreciation in the fair value of investments.

Note 9 – Net investment income (continued)

(Millions)	1999	1998
INCOME		
Interest Bearing Investments		
Short-term deposits	$ 128	$ 126
Canadian Bonds & Debentures	363	380
Non-Canadian Bonds	81	88
Private debt	15	12
Mortgages	107	102
	694	708
Equity Investments		
Canadian Equities	196	185
Non-Canadian Equities	88	74
Resource properties	6	10
Canadian private equities	(6)	(13)
Non-Canadian private equities	2	6
	286	262
Real Estate Investments	276	217
NET REALIZED GAINS on disposal of investments	2,002	2,133
NET UNREALIZED APPRECIATION/(DEPRECIATION) in the fair value of investments	1,425	(401)
	4,683	2,919
Less income credited to:		
Administered pension funds	69	39
Provision for supplementary retirement benefits	16	13
	$ 4,598	$ 2,867

b) Investment Income After Allocating the Effect of Derivative Contracts

Investment income by asset class, after allocating the realized and unrealized gains and losses on investments, is as follows:

(Millions)	1999	1998
Fixed income	$ (153)	$ 1,106
Canadian equities	2,901	(171)
Non-Canadian equities	1,646	1,550
Real estate	289	434
	$ 4,683	$ 2,919

Note 10 – Benefits

(Millions)	1999	1998
Members' pensions	$ 817	$ 761
Commuted value payments	121	105
Members' contributions plus interest refunded	57	44
Transfers to other pension plans	10	10
	$ 1,005	$920

Note 11 – Administrative expenditures

a) Operating Expenses

(Millions)	1999	1998
Personnel services	$ 27.5	$ 22.0
Transportation and communication	2.1	2.1
Actuarial services	0.4	0.3
Audit services	0.3	0.4
Legal services	0.4	0.6
Other professional services	1.5	0.6
Occupancy costs and municipal taxes	2.7	2.8
Systems development purchased services	19.9	9.1
Other purchased services	8.2	5.4
Equipment and depreciation	4.1	2.6
Materials and supplies	2.4	1.3
	$ 69.5	$ 47.2

b) Compensation

The following information is furnished in compliance with the *Public Sector Salary Disclosure Act* 1996.

		1999	
Employee	Position Held	Salaries*	Benefits**
Bale, B	Senior Portfolio Manager, Core Fund	$ 162,739	$ 499
Belcourt, G	Portfolio Manager, Mortgages	120,685	394
Beswick, M (1)	Senior Vice President, Pensions	175,576	9,849
Bloeman, P	Asset Manager, Retail	112,285	441
Brundage, P	Asset Manager, Office	114,118	425
Buie, J	Vice President, Corporate Planning & Budget	120,272	466
Burgess, L	Senior Portfolio Manager, Private Placements	147,026	448
Carlin, C	Senior Portfolio Manager, Small Cap Fund	144,703	436
Clark, L	Vice President, Economic Policy & Strategic Research	132,133	444
Collier, I	Vice President, Private Placements	203,564	608

Employee	Position Held	1999 Salaries*	1999 Benefits**
Donegan, J	Senior Portfolio Manager, External Funds	112,373	399
Eastman, E	Portfolio Manager, Fixed Income	124,793	418
Estabrooks, D	Vice President, Financial Services	113,020	440
Farmer, L	Portfolio Manager, Mortgages	118,352	385
Figuer, F	Senior Analyst	107,633	-
Fotheringham, R	Senior Portfolio Manager, Derivatives	136,883	432
Funston, E	Vice President, Pension Systems	145,551	472
Gladstone, W (1)	Senior Vice President, Finance & Administration	185,126	11,678
Gledhill, S	Vice President, Accounting & Financial	136,053	515
Gray, M	Senior Vice President, Portfolio Mgmt. – Office	207,801	667
Gunn, T (1)	Senior Vice President, Investments	354,552	1,074
Jarvis, P	Vice President, Fixed Income	175,982	614
Knight, G	Portfolio Manager, Indexed Equities	109,227	343
Lai, T	Portfolio Manager, Foreign Bonds	116,052	401
Latimer, M	Managing Director, OMERS Realty Corporation	350,316	1,033
Leckman, D	Vice President, Public Market Equities	195,480	613
Mak, R	Team Leader, Membership System	100,283	314
Morrison, J	Senior Vice President, Portfolio Mgmt. – Retail	239,950	778
Oakley, D	Vice President, Pension Administration	124,000	494
Paget, M	Manager, Application Services	116,608	389
Parr, D	Senior Portfolio Manager, Private Placements	133,252	430
Peto, D	Portfolio Manager, Equity Trading	127,611	417
Platt, G (1)	Senior Vice President, Corporate Affairs	160,632	10,037
Ramasawmy, R	Manager, Systems Services	118,048	377
Richmond, D (1)	President & C.E.O.	314,386	20,505
Senst, G	Vice President, Real Estate	194,538	608
Vaillancourt, C ***	Vice President, Information Services	164,098	501
Winkler, W	Manager, Computing Infrastructure Services	120,746	396
Woolsey, J	Vice President, Private Market Investment Services	106,409	420

* Salary includes incentive bonuses awarded on the attainment of total fund, corporate, and divisional goals and objectives
** Taxable benefits include life insurance, car allowance and other taxable perquisites
*** No longer employed by OMERS

(1) Executive Compensation

OMERS executive compensation programs are governed by the Compensation Sub-Committee of the Board, which relies on independent consultants to advise on and gauge market competitiveness. The executive programs are designed to be competitive in order to attract, retain and reward the broad-based management talent needed to achieve organization objectives. In determining compensation levels, a range of comparison groups is referenced and may include other large public and private sector pension funds, financial service organizations and the broader public sector. Comparison groups can vary with executive position.

Ten Year Review of Financial Data

($ Millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Investments at market (*)										
Debt	11,566	12,947	10,625	8,554	6,737	6,560	6,673	5,682	5,678	5,122
Equity	19,586	15,587	16,022	14,612	12,149	11,935	11,570	8,505	7,766	6,475
Real Estate	4,126	3,995	2,729	2,450	2,391	2,151	1,846	1,646	1,348	865
	35,278	32,529	29,376	25,616	21,277	20,646	20,089	15,833	14,792	12,462
Assets at market value for (*)										
Total fund	34,930	31,380	29,108	25,378	21,213	18,389	17,778	14,005	13,091	11,140
Liability for:										
Supplementary agreements	131	116	110	121	120	134	139	136	128	117
Administered pension plans	502	437	395	341	345	2,463	2,362	1,841	1,719	1,462
	35,563	31,933	29,613	25,840	21,678	20,986	20,279	15,982	14,938	12,719
Investment income earned (incl.realized and unrealized gains)										
Basic plan	4,598	2,867	3,692	4,074	2,625	310	3,363	475	1,576	(384)
Supplementary benefit agreements	16	13	11	9	11	13	8	2	2	2
Administered pension plans	69	39	51	55	381	44	448	106	208	(52)
	4,683	2,919	3,754	4,138	3,017	367	3,819	583	1,786	(434)
Contributions received for										
Basic plan	–	364	869	874	869	870	890	878	765	683
Basic plan unfunded liabilities	27	8	21	8	6	9	11	12	18	36
Supplementary benefit agreements	–	–	–	–	1	–	1	–	1	2
	27	372	890	882	876	879	902	890	784	721
Payments to members										
Pensions paid	817	761	699	661	570	491	414	373	328	278
Contributions and interest refunded	178	149	104	89	67	51	43	37	43	54
Transfers to other plans	10	10	9	6	6	4	6	13	13	5
	1,005	920	812	756	643	546	463	423	384	337
Expenditures										
Administration	70	47	40	35	33	33	31	30	24	23
Investment operating	28	30	24	25	22	18	16	15	13	7
	98	77	64	60	55	51	47	45	37	30
Total fund annual rate of return										
Time weighted return on market value	15.2%	10.1%	14.8%	19.3%	14.2%	1.8%	23.7%	3.9%	14.5%	(3.4)%

*market value as at December 31

OMERS Board Members and Senior Officers

As at January 1, 2000

Frederick Biro, Peter Leiss, Claude Guillemette, Susan O'Gorman, Dick McIntosh, Rick Miller, Bill Rayburn

Nancy Bardecki, Walter Borthwick, David Carrington, Marianne Love, Roger Richard, Paul Bailey

Board Members

Employee Reps

Susan O'Gorman
Chair
Ontario Nursing Association

Peter Leiss
First Vice Chair
Canadian Union of Public Employees

Paul Bailey
Police Association of Ontario

David Carrington
Canadian Union of Public Employees

Dick McIntosh
Pensioner

Rick Miller
Ontario Professional Fire Fighters Association

David A.Griffin
(Until April 28/99)
Police Association of Ontario

Government of Ontario Rep

Nancy Bardecki

Employer Reps

Walter Borthwick
Second Vice Chair
Mayor, Town of Wasaga Beach

Roger Richard
Past Chair
Limestone District School Board

Claude Guillemette
Reeve, East Ferris Township

Frederick Biro
Peel Police Services Board

Marianne Love
City of Brampton

Bill Rayburn
County of Middlesex

Wasim Hassan
(Until Dec. 31/99)
Municipal Electric Association

Joanne Fulkerson
(Until Mar. 31/99)
Thunder Bay Hydro

Senior Officers

Dale Richmond
President & CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance & Administration

Tom Gunn
Senior Vice President
Investments

Gillian Platt
Senior Vice President
Corporate Affairs

Advisors to the Board

Actuary
Watson Wyatt Worldwide

Auditors
KPMG LLP

Legal Advisor
Osler, Hoskin & Harcourt

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis

Mandate and Governance

Board Mandate

OMERS mandate is set out in the *OMERS Act and Regulation*.

Board responsibilities include:

- Setting OMERS strategic direction
- Allocating financial resources
- Recommending plan design changes (subject to provincial government approval)
- Determining investment asset mix allocation
- Approving contribution rates
- Appointing Chief Executive Officer and monitoring organizational effectiveness
- Establishing executive compensation policy

Board Membership

Board members are appointed by the Provincial Government for a maximum of two three-year terms.

OMERS is governed by a 13-member board composed of:

- Six employee representatives
- Six employer representatives
- 1 provincial government representative

Board Accountability

Twelve of the 13 current members of the Board are plan members - a constant reminder that policies and decisions must be in the best interests of stakeholders.

There is a mandatory orientation and ongoing continuing education program for Board members including seminars and conferences.

Each Board member receives a Board handbook that provides a comprehensive description of responsibilities.

A bi-annual Board evaluation program conducted by outside consultants was established in 1999.

There are meetings 10 times each year plus two annual strategy sessions to ensure Board members are fully aware of the Plan's management activities.

The Board attendance in 1999 was close to 100%.

The Board holds two general meetings a year with Plan members.

Board Independence

The Board has access to outside experts in plan administration and fund investment to assist them in undertaking their oversight responsibilities.

The Board appoints the CEO, who is not a member of the Board, and reviews his performance annually.

Day-to-day management of OMERS is delegated to the CEO. The Board retains responsibility for strategic management decisions.

Board Governance

The Board Governance Sub-Committee was established in 1998.

It consists of the chair, first vice-chair, immediate past chair and vice-chairs of the pension, management and investment committees.

The Committee reviews the mandate of the Board and committees, evaluates the orientation and education programs, composition, qualifications, compensation and nomination process for Board members.

It conducts a bi-annual Board evaluation with the assistance of outside consultants

Board Committees

The Board has four standing committees (listed below) and three sub-committees: governance, audit and compensation.

Executive Committee

Responsible for Board affairs, government relations, organizational changes.

Serves as compensation subcommittee to handle executive compensation and performance.

Investment Committee

Approves asset mix policy, reviews investment policy and goals, reviews major investment decisions.

Pension Committee

Oversees pension administration policy, appoints independent actuary, reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes.

Management Committee

Responsible for human resources, annual budget, strategic plan and major purchases.

Ontario Municipal
Employees Retirement System

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