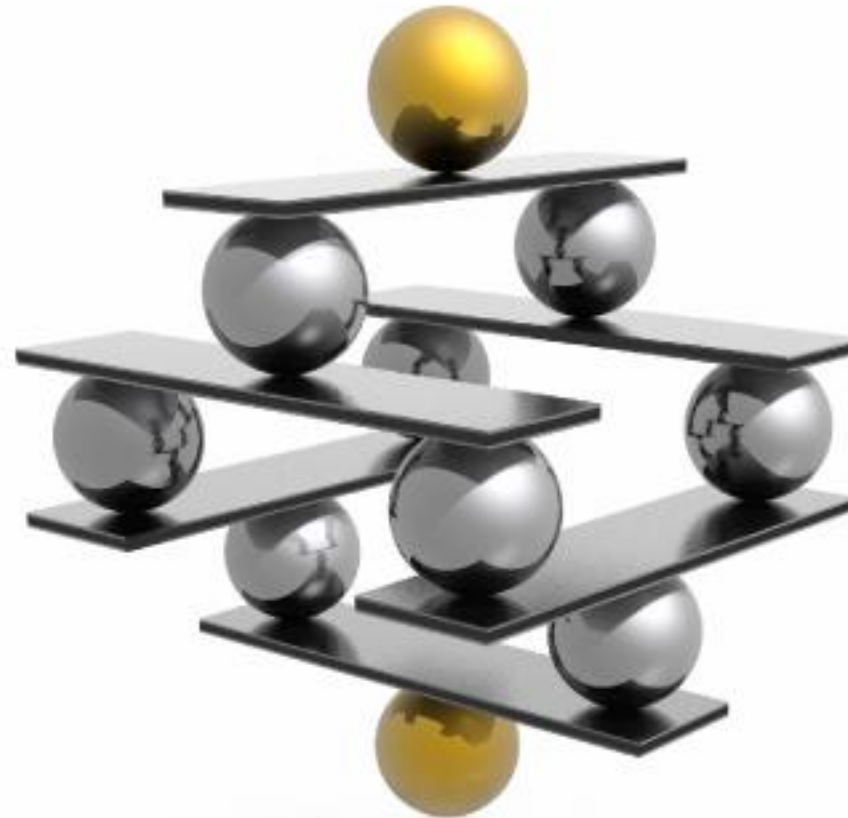


OMERS and the Public Sector Environment

2011 AMO Annual Conference
August 23



Prepared by Aon Hewitt

Agenda for today

- Issues affecting all pension plans
- Issues specifically affecting Public Sector pension plans
- UK public sector review – Hutton Report
- Prescription for sustainability
- OMERS – Back to the Future

Recent Headlines from Canada, US & UK

- " Promoting pension envy will not solve an old age crisis "
- " Cut pay rather than pensions "
- " Crunch time looms for public sector pensions "
- " What type of pension you have matters "
- " Treasury taps pensions as Uncle Sam hits debt ceiling "

The fundamental issues are the same
where ever you go

Issues affecting all pension plans

- Demographic trends
 - Longer life expectancy
 - Shorter working careers
 - Aging of the workforce
- Economic trends
 - Lower returns on investments
 - Greater volatility in the financial markets
 - Long term decline in interest rates

The cost to provide retirement security has increased,
all while price inflation has been tamed

Issues specifically affecting Public Sector pension plans

- Gutting of DB plans in the private sector
- State of Public debt
- Looming healthcare funding crisis
- General lack of appreciation that not all Public Sector plans are alike
- Taxpayer resistance to increasing the cost of government
- Political environment in which Public Sector plans exist
- High level of unionization in the Public Sector

UK public sector review - Hutton Report, March 2011

- Main thrust – make public service pensions more sustainable and affordable in the future, while providing an adequate level of retirement income
- Some key benefit-related recommendations
 - Retain defined benefit approach
 - Base benefits on career average revalued earnings (CARE)
 - Link normal retirement age (60) to be in line with State Pension Age (65)
 - Increase normal retirement age of uniformed services (to 60)
 - Set fixed cost ceiling, with automatic defaults
- Other recommendations cover
 - Improving communications to members
 - Setting standards for administration
 - Strengthening plan governance

Prescription for DB sustainability

- Structural
 - Scale
 - Neutral plan governance
 - Broad based/universal participation
 - Shared financing between members and employers
 - Investments recognize nature of benefit liabilities
- Benefits
 - Based on career earnings
 - Nominal early retirement subsidies
 - Some benefit contingency (e.g., inflation protection)
 - Member funded ancillaries

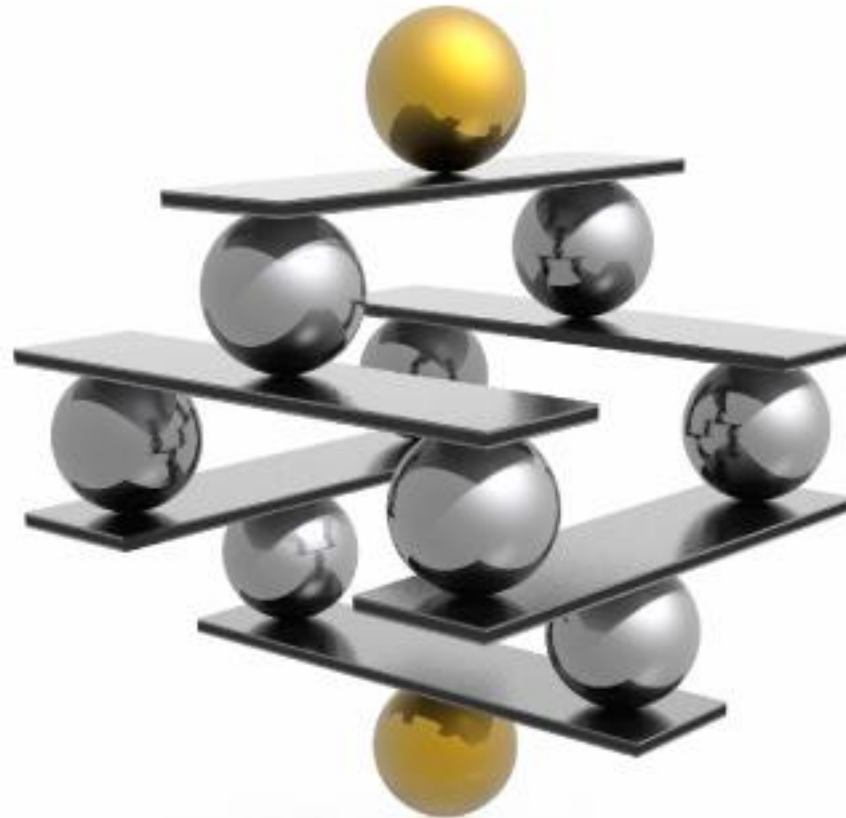
OMERS – Back to the Future

- 1963 – OMERS established, with NRA65 and NRA60
- 1978 – Career average formula replaced with final average formula
- 1992 – 30&out unreduced early retirement introduced
- 1992 – Contractual indexing incorporated at 70% of CPI
- 1999 – Contractual indexing increased to 100% of CPI
- 1998-2002 – Contribution holidays
- 2010 – SPDOS adopted as a framework for effective decision making regarding the funding of OMERS

The combined contribution rate to the OMERS Primary Plan has tripled since its inception

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