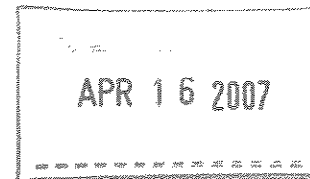


April 12, 2007

Ms. Pat Vanini
Executive Director
Association of Municipalities of Ontario
393 University Avenue
Suite 1702
Toronto, ON M5G 1E6



Dear Ms. Vanini:

Thank you for your recent letters in which you inform the OMERS Administration Corporation (AC) Board of your concerns related to the development of the OMERS Supplemental Plans.

In response to your concerns, set out below are the decision that the AC has made as well as the rationale as to why AC has made the choices it has made in the design and implementation of the Supplemental Plans.

Guiding Principles:

The AC has followed a number of guiding principles which form the basis for establishing the Supplemental Plans. These principles create a plan that is i) cost effective, ii) subject to the same terms and conditions as the OMERS Primary Plan to the extent possible, iii) consistent in terminology with the Primary Plan and iv) meets the requirements to provide full solvency exemption, subject to the approval of the Ontario government. In addition, the principles contemplate that they could apply to the development of all Supplemental Plans.

Rationale: Supplemental Plans are established in the OMERS Act 2006, which also sets out that the AC solely has the initial sponsorship responsibility to amend the OMERS pension plan to provide the supplemental benefits. Within 24 months (July 1, 2008) of the OMERS Act 2006 coming into force, the amended Supplemental Plans will be turned over to the OMERS Sponsors Corporation (SC), which will then take over the responsibilities of sponsoring the Supplemental Plans.

The guiding principles which the AC has adopted in establishing the Supplemental Plans reflect what the AC believes is required in order to effectively fulfill its statutory duty. Where the Act itself is silent and where there are key design features which must be decided, the AC feels it is reasonable for the Supplemental Plan to mirror the Primary Plan to the extent possible, as set out in the guiding principles. The guiding principles reflect the experience the AC has with the Primary Plan, and help to create a uniform and more readily administered system of pension plans at OMERS.

The AC has conducted extensive costing analysis in the establishment of the Supplemental Plans, consistent with its fiduciary duty to OMERS plan members as the plan administrator. This analysis will be shared first with sponsors then with stakeholders once the Supplemental Plan is filed with the regulator. In addition, the AC, as part of its responsibility, has consulted with the SC Board members, their principles and expert advisors on the design of the Supplemental Plan throughout the month of January 2007.

81.55% versus 70% Benefit Level:

The 2.33% accrual benefit formula will be based on an 81.55% combined Primary and Supplemental Plan benefit limit.

Rationale: The combined benefit limit between the Primary and Supplemental Plans will be based on 35 years of credited service for both plans. When a member reaches 35 years of credited service in both the Supplemental and Primary Plan, the potential benefit will equal 81.55 % (2.33% x 35 years). The AC Board seriously considered the SC Board's view on this issue, but it became clear that capping the Supplemental Plan at 70% would have a number of unintended results. Having the Supplemental Plan mirror the Primary Plan based on years of credited service will minimize the opportunity for these results. For example,

- Primary Plan credited service accrued beyond SC's proposed 30 year cap in the Supplemental Plan would have reduced the benefit such that once the member attained 35 years of credited service in the Primary Plan, there would have been no 2.33% benefit payable from the Supplemental Plan.
- Although a member with a 2.33% benefit may be entitled to a refund of contributions plus interest after accruing 35 years of service in the Primary Plan, they may feel they are not receiving the benefit they paid for.

Past Service Payment Methodology:

Past service purchases will be structured, at least initially, to include both lump sum payments and the ability to amortize a fixed cost for up to 36 months.

Rationale: Although this option carries more risk than solely a lump sum payment, it is felt that this risk can be managed. OMERS actuary has indicated the risk to the Supplemental Plan can be minimized by revaluing costs every 36 months.

Past Service Cost Sharing:

Past service costs must be paid by the member to the Supplemental Plan.

Rationale: Past service costs will be paid by the member, although the employer does have the option to negotiate other arrangements with its members outside of the Supplemental Plan if it wishes to participate in the cost of the past service.

This approach resolves the issue of CRA's restriction on employers funding past service when the Supplemental Plan is in a surplus position and provides flexibility for both members and employers in terms of structuring any cost sharing.

Past Service

For new members joining the Supplemental Plan, the window for election to purchase past service is 24 months from enrolment in the Supplemental Plan

Rationale: The OMERS Act is unclear given that the terms "consented" and "consents" are not defined in the legislation and there is a reasonable potential for different interpretations. Regardless of the interpretation, there is a risk that the interpretation may be challenged, but in order to move forward and to fulfill its responsibility to establish the Supplemental Plan, it has been essential that the AC make a determination as to the intent of the 24-month deadline. The AC Board's approach provides consistent access to past service for both existing and new members of the class. It gives all members 24 months to elect to purchase their past service.

100% Indexing Inflation Protection:

The inflation protection to be provided under the Supplemental Plan will mirror that provided in the Primary Plan.

Rationale: In the absence of consensus from the sponsors on this design factor during consultation, the AC has made its decision in accordance with principles which it has used to guide the design of the Supplementary Plan.

General Concerns:

As indicated in the first section on Guiding Principles above, the OMERS Act 2006 delegates the initial sponsorship responsibility for establishing the Supplemental Plans to the AC within the 24 month window following the coming into force of the legislation. On July 1, 2008, the AC will turn over the design responsibility for the Supplemental Plans to the SC, which will take over the role of the sponsorship of the Supplemental Plans.

Even though July 1, 2008 is more than a year away, the AC is operating under tight timelines imposed by the *OMERS Act, 2006*. There are timing requirements to approach the Province for a solvency exemption for the Supplemental Plan; representatives from the provincial government have indicated that they cannot address the issue of solvency relief for the Supplemental Plan until they have in their possession a copy of the plan text filed with the regulator, along with its registration number. The AC plans to file the Supplemental Plan with the regulator by the end of April, 2007.

Following the filing of the Supplemental Plan, the AC will undertake a full briefing on the Supplemental Plans with sponsors and then with stakeholders. These briefings will include more detailed cost analysis, as requested. We will inform the sponsors and stakeholders of the timing for these briefings as soon as possible.

As indicated, the AC consulted with the SC members and advisors during the design phase of the Supplemental Plans. The AC and the SC are now actively developing consulting and communications protocols that will help guide the interaction between the two corporations on an ongoing basis. There are also regular meetings occurring between the Interim Co-Chairs of the SC and the Chair and Vice-Chair of the AC.

I trust that the above addresses your concerns. If you wish to discuss these concerns further, please feel free to contact Debbie Oakley, Senior Vice President Corporate Affairs at (416) 369-2402. The AC Board looks forward to continuing to work with you to meet the needs of the Association of Municipalities of Ontario.

Yours truly,

A handwritten signature in black ink, appearing to read 'DK', with a stylized flourish extending to the right.

David Kingston
Board Chair
OMERS Administration Corporation

cc: OMERS Sponsors Corporation
Michael Nobrega, OMERS President and CEO