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***Bill 206: An Act to revise the Ontario  
Municipal Employees Retirement  
System Act, 2005***

AMO President Roger Anderson's Presentation  
to the Standing Committee on General  
Government

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***Association of Municipalities  
Of Ontario***

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## **INTRODUCTION:**

Good morning ladies and gentlemen. My name is Roger Anderson. I am the Chair of the Regional Municipality of Durham and the President of the Association of Municipalities of Ontario (AMO). We are pleased to be here today and have the opportunity to make a follow-up submission to the Standing Committee on General Government on the amended Bill 206, *An Act to revise the Ontario Municipal Employees Retirement System Act, 2005*.

As a representative and advocate of almost all municipal government across the province, with more than 380 municipal members who are OMERS employers, AMO is profoundly concerned about the impact of Bill 206 and the potential for significant costs for municipalities and ultimately to property tax payers. To date, AMO has heard from 200 municipalities across Ontario citing concerns regarding the proposed legislation.

AMO maintains that the Province is rushing to reform one of Canada's most important pension funds without a reasonable understanding of the potential repercussions and without sufficient regard to the best interests of employees, retirees, employers, citizens, taxpayers or Ontario's economy.

The Government advised the Legislative Assembly, at Second Reading of this proposed legislation, that all of the input received by Standing Committee members was brought forward and taken very seriously. Yet, amendments tabled to date reflect a fundamental disregard for the interests of OMERS employers, municipal governments and property tax payers. Bill 206 is terribly flawed and fundamentally wrong.

If this Bill was once about the devolution of responsibility and autonomy to OMERS employee and employer members, it no longer is. It is now a Bill that is first and foremost about ensuring access to enhanced retirement benefits for a select group of employee members.

AMO's preliminary analysis concluded the potential cost impact for municipalities for supplemental plans to be as much as \$380 million a year. This is estimated to be the equivalent to a Province-wide property tax increase of 3%. Over 5 years this amounts to \$1.9 billion. This is equivalent to the full amount of Federal gas tax being transferred to Ontario municipalities over a 5-year period!

While the amended Bill appears to put some limits on benefit changes, and the Government has signalled an intent to remove the solvency requirement for supplemental plans, we have absolutely no doubt there will be new OMERS costs - with not one penny to find its way into any service improvements for the public.

If Province has told the Committee that AMO's costing is based on "worst case scenario". If they have any alternative data or actuarial analysis, we call on them to present it now.

Bill 206 provisions mandating supplemental plans for police, fire and paramedics will result directly in increased property tax increases, and will undermine our ability to invest in communities, including emergency services. There will be costs.

In fact, the amendments introduced subsequent to the last Standing Committee hearings, particularly making the provision of supplemental plans mandatory

within two years, and the addition of paramedics, would increase AMO's cost estimates dramatically.

**Supplemental Plans:**

Needless to say, the logistical challenges of supplemental plans are considerable and complex. All would have to be managed and administered by OMERS on behalf of approximately 900 employer groups, not to mention the anticipated significant increase in actuarial and technology costs. The OMERS Board has speculated that the cost of lawyers and pension experts to advise the Sponsors Corporation in establishing province-wide supplemental plans alone will be \$5 – 10 million dollars. These estimates don't even factor in the resources necessary to ensure the successful transition of the plan and support for the Sponsors in educating themselves as they assume their new and very important role.

When Bill 206 was introduced, it outlined the potential for a number of supplemental plans to enhance the retirement benefits of OMERS police and fire service employees. Not only did Government amendments to the Bill after First Reading introduce mandatory supplemental plans, but also extended these provisions to paramedics, and clarified that the definition of "police" included civilian police services employees and not just front-line officers.

In debates to the Legislative Assembly at Second Reading the Government assured the members opposite that the rationale for providing emergency services workers "special consideration" in this legislation is that such noble careers are characterized by particular physical and mental challenges, necessitating personal and special sacrifices. Yet, those OMERS employees in civilian police services jobs include office administration, information technology services, human resources workers and school crossing guards.

Our review of retirement plans for local governments, including the U.S., showed that fattened pensions for select public servants have left them with substantial retirement nest eggs that they would not likely have received from private companies and skewed a compensation system that was designed to supplement low civil service wages and reward long-time public employees with a secure retirement.

AMO is certain that it is only a matter of time before OMERS employees in other areas of employment, outside the emergency services sectors, will seek the same access to enhanced retirement benefits as their colleagues in police, fire and paramedics. The tenets of Bill 206 will effectively change the face of municipal labour relations forever. If you think AMO's last cost estimate for supplemental plans was a "worst-case scenario", trust that you will see these enhanced benefits whipsaw across the entire public sector, including Provincial OPP services. And at what cost to the taxpayers of Ontario?

**Decision-Making Model:**

Bill 206 introduces an unusual decision-making model whereby the Sponsors Corporation may make a specified change (e.g., change to benefits or contribution rates) with an affirmative vote of two-thirds of its members. If a proposal is neither accepted (by 2/3 majority), nor rejected (by simple majority), the Sponsors Corporation may, by an affirmative vote of a simple majority of its members (i.e., 50% +1), refer the proposal to a mediation and arbitration process. Complicated, isn't it?

What the Government must consider as inevitable, is that if an arbitration decision on Plan benefits is rendered at the Sponsors Corporation level, then the

likelihood of arbitration at the local level will happen with great ease. Current arbitration decisions take decisions elsewhere and replicate them.

AMO cannot support such a model. In essence, a decision by an arbitrator could have a significant impact on the municipal tax rate, without any regard for tax increases and the ability to pay, without any regard to the reduction of staffing and services that may be required to accommodate the decision, and without any accountability to the public, taxpayers or employees. It is an appalling means to supposedly protect the public interest of Ontarians.

The Bill should indicate simply that decisions for specified changes are subject to the 2/3<sup>rd</sup>'s majority vote – full stop. The proposed decision making model is incomprehensible and unnecessarily complicated, and flies in the face of the stated objective of Sponsor autonomy. As well, the government's amendment to make supplemental plans mandatory negates the rationale for an arbitration component.

**Costing:**

To date, the Government has not provided any information to demonstrate that it has analyzed the potential cost implications of Bill 206 for any employers, including municipalities. OMERS estimates that the cost of implementing certain supplemental benefits could be quadruple the total cost without solvency funding in the first five years, placing additional, and perhaps even insurmountable fiscal pressure on the employers and employees who will fund them.

Add to this the current financial performance of the basic plan that necessitates OMERS employees and employers to manage an average 9% increase in their

OMERS contributions. Costs related to Bill 206's mandatory supplemental plans would be in addition to escalating costs for the basic plan.

AMO stands by our costing analysis as accurate, as should the Province. When asked to provide their own fiscal analysis, the Province indicated that they are relying on figures supplied by the OMERS Board. AMO has produced fair and reasonable estimates using OMERS data and actuarial information projected across 120 municipalities in Ontario.

Although finance minister Dwight Duncan has signalled to OMERS his intent to recommend to Cabinet that supplemental plans be exempted from solvency requirements under the Ontario *Pension Benefits Act*, nothing in Bill 206 changes these legislated solvency requirements. While we do not question the sincerity of the Minister of Finance or his commitment, his promise provides no guarantee. It would be irresponsible for AMO or anyone else to adjust its current cost estimates under the circumstances.

If anything, the original estimates have grown. The \$380 million does not account for new costs that were added to the Bill at Second Reading – the extension of mandatory supplemental plans for paramedics, or civilian police services employees; or, the “best three years” plan.

Furthermore, even if we factor in a solvency exemption, the costs developed by OMERS actuaries – at AMO's request – projected a 10% increase in OMERS costs for a municipality with 1,000 employees when just one supplemental plan was provided for each of the NRA 60 and NRA 65 employees (see attached Appendix “A”). That's a 10% increase on top of the already escalating cost of the OMERS basic plan with not one penny going toward better services.

I guess that's what the government would call a "best case scenario" – a 10% hike in OMERS costs without one penny invested in better services. That means increased pension benefits supported by municipal tax payers, including pensioners on a fixed income, for a pension plan that is already one of the most generous in Canada.

Yesterday, this Committee heard from the Police Association of Ontario that the costs of supplemental plans would be low. So, this Committee has heard from stakeholders with disparate views and very different interests.

And still, the Government has refused to provide anyone with any information about the costs of the Bill. The notion that costing done from 2002 consultations has any bearing on Bill 206 is ridiculous. Is it possible that the Government simply doesn't know what the cost impacts of Bill 206 will be? What does this say about this Bill and the work of this Committee?

We maintain that taxpayers deserve nothing less than full disclosure of the Government's costing analysis as part of due diligence on this major policy initiative. The Government has commented on the credibility of our costing analysis – it's only fair we should be able to comment on theirs.

AMO feels so strongly about this, we felt compelled to make a formal request for this information under the provisions of the *Freedom of Information and Protection of Privacy Act* – something we were reluctant to do, as our preference would have been that the Government offered this information as many requested during the public hearings. We are still waiting for this information.

**Plan Design:**

Increasingly, there is movement in the broader pension community toward “Defined Contribution” pension plan conversions, as the fiscal sustainability of “Defined-Benefit” based plans are being questioned. This includes a new case study from the Toronto-based Rotman International Centre for Pension Management that identified the multiple financial challenges facing many Defined-Benefit plans.

AMO congratulates the Government on its removal of section 9 that necessitated all benefit plans be defined as Defined-Benefit plans. If the intent of devolution is to permit the members of the Sponsors Corporation to take more responsibility for the viability of their plan and be responsive to the needs of OMERS stakeholders, flexibility on future plan design may be necessary.

Furthermore, consistent with the Bill’s stated objective of Sponsor autonomy, AMO cannot support the section of the draft legislation that confers Government authority to make regulations governing the establishment and terms and conditions of supplemental plans. AMO upholds that disputes over the establishment and terms of conditions of supplemental plans should be settled by an autonomous Sponsors Corporation, without the interference from Government. As well, Sponsors with appointing authority, including AMO, should have absolute control on who is appointed to represent their constituents on the initial Sponsors Corporation.

**CONCLUSIONS:**

AMO believes that the Province is ignoring the best interests of communities, small business groups, seniors and property tax payers in general. The OMERS pension plan is already one of the most generous pension plans in Canada –

taxpayers, particularly pensioners on fixed incomes, should not have to pay higher property taxes to fund even greater benefits for a select few.

The OMERS Plan was designed to provide a predictable, stable and portable pension system for employers and employees alike. These key principles are betrayed by this Bill – to the detriment of both municipal government and taxpayers.

Bill 206 has been amended to create a very costly and complex pension plan. If Bill 206 passes in its current form, municipalities will need to begin planning for significant cost increases and consequent property tax increases.

If the Government proceeds with the Bill, it must provide at least 12 months lead time before the Bill comes into force to allow all parties to prepare for implementation.

This Committee will hear from many OMERS stakeholders. Few stakeholders and even fewer plan Sponsors support this Bill. Most Sponsors believe this Bill is a recipe for disaster. Furthermore, yesterday we learned that CUPE will seek a mandate to strike over provisions in Bill 206 – leading to the potential disruption of vital municipal services in communities all over Ontario. Given that most stakeholders overwhelmingly reject this legislation, the Government must carefully ask itself if it is advisable to proceed with the passage of Bill 206.

Coupled with the continued absence of any indication that the government has considered the true implications of the Bill, AMO respectfully suggests to this Committee that it “do the right thing” and recommend defeat of the Bill.

**Appendix A:** OMERS Supplemental Plans Generic Information

Initial annual dollar contributions by a hypothetical employer with 1,000 employees, subscribing to Supplemental Plans

	NRA 60	NRA 65	TOTAL
Primary Pension Plan	\$1.64 M	\$2.4 M	\$4.04 M
Supplemental Plans (with solvency funding)	\$0.71 M	\$0.50 M	\$1.21 M
Supplemental Plans (without solvency funding)	\$0.16 M	\$0.21 M	\$0.37 M
Total (with solvency)	\$2.35 M	\$2.95 M	\$5.25 M
Total (without solvency)	\$1.80 M	\$2.61 M	\$4.41 M

Source: OMERS Supplemental Plans Generic Information  
Stakeholder Meeting, September 23, 2005