OMERS Update: July 6, 2010
Changes to Contribution Rates and Benefits

The OMERS Sponsors Corporation (SC) has approved temporary changes for both employers and members to address the OMERS Primary Plan's funding shortfall.

The Plan's $1.5 billion shortfall as of December 31, 2009, is projected to grow as nearly $5 billion of net losses, mostly from the 2008 global market downturn, are recognized on its balance sheet over the next four years.

To address the shortfall, employer and employee contribution rates will both increase about 1% per cent each year for three years, starting in 2011. In addition, members who terminate employment prior to being eligible for early retirement will have temporary benefit reductions.

In addition to the decisions about contribution rates, benefit reductions (see below) and grow in rights, the Sponsors Corporation committed to filing its 2009 valuation with the Financial Services Commission of Ontario (FSCO) and to negotiating a Strategic Plan Design and Objectives Statement (SPDOS) by the end of this year. This Statement will provide a welcome framework and guidance for long-term decision making.

Municipal Achievement
On the whole, these decisions are good news for municipalities – and our outreach and advocacy can take considerable credit for securing the following outcomes:

- **Predictability** – The Sponsors Corporation opted for a multi-year strategy over the single year options that some proposed and had been the case previously.
- **Cost containment** – Municipal costs would have been far higher under some of the alternative proposals that were submitted and considered. Significant costs were also avoided by a decision not to provide optional "grow-in" rights that would have increased the Primary Plan's funding shortfall by as much as $1 billion.
- **High commitment to prudent, long-term planning** – The Sponsors Corporation has shown an unprecedented commitment to advancing the shared, long term interests of the plan over their competing interests as individual sponsors.

Temporary Contribution Rate Increases
Contribution rates for both employers and active members will increase in 2011 through 2013, as follows:

- 2011 – effective with the first, full pay in 2011, contribution rates will increase, on average, by 1% per side (employer/employee) as a percentage of a member's earnings.

- 2012 – effective with the first, full pay in 2012, contribution rates will increase, on average, by an additional 1% per side (employer/employee).
- 2013 – effective with the first, full pay in 2013, contribution rates will increase, on average, by an additional 0.9% per side (employer/employee).

For most employees, a 1% increase will generally result in a 10% - 13% increase in the actual contributions to be made to the Plan. However, the net increase would be less because pension plan contributions are tax-deductible.

Once the rates are finalized for 2011-2013, OMERS will inform all employers and Plan members, and provide examples of how the increases will affect their contributions of the NRA 65 and NRA 60 members.

Temporary Benefit Calculation Changes
Starting in 2013, these changes will only affect members who terminate employment prior to being eligible for early retirement – i.e., members who terminate before age 55 (normal retirement age 65) or 50 (normal retirement age 60). These changes will not affect any benefits based on service accrued before 2013.

Impact on Individual Municipalities
If a regional municipality has a $340 million budget for salaries in 2013, a 1% per side contribution rate increase could result in $3.4 million in additional OMERS contributions. In a lower tier municipality with a $70 million salary budget, this could lead to an additional $0.7 million in OMERS contributions.

On a broader scale, it is estimated that a contribution increase of 1% per side could result in a total cost increase of approximately $51 million annually for municipal employers as a group.

Again, the decision against optional 'grow-in' rights has greatly reduced potential costs for employers and members alike.

Looking Forward
The OMERS SC will continue to carefully monitor the Primary Plan's funded status, and to make any decisions on changes through its annual planning cycle.

With respect to the SPDOS, MEPCO along with its actuary, AON, is doing research on other Plans' design statements in order to provide information and assistance to municipal SC representatives as they prepare for the upcoming discussions.

For More Information
More information about OMERS, the Sponsors Corporation and these pension matters is available on the MEPCO website (www.mepco.ca)

OMERS is developing member case examples and cost analyses, and will provide increased detail on these changes and their impact via www.omers.com and in its fall newsletters.

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