

Clarifying Costs of Changes to Contribution Rates and Benefits

In late June, the OMERS Sponsors Corporation (SC) approved a multi-year plan of temporary contribution increases and temporary benefit reductions to address the multi-billion dollar funding shortfall. This communication is further to the July 6 Update that described the changes.

Prior to making its decision, the SC considered many proposals, including three multi-year proposals intended to address the funding deficit. The employer representatives propose changes which would have resulted in greater benefit reductions and smaller contribution increases than were finally adopted by the SC Board, but that proposal could not gain the necessary 2/3rds vote.

After extensive and complex negotiations, a compromise proposal received the support of all employer representatives and all but one union representative. That proposal results in modest benefit reductions and the contribution increases described below.

i) Temporary Contribution Rate Increases

While the individual rates for NRA 60 and 65 above and below the YMPE earnings line have not yet been determined by the SC, the final rates will be based on the following increases:

- 2011---effective 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 rate;
- 2012—effective the first full pay in 2012, the rates will increase by 1% per side;
- 2013—effective the first full period in 2013, the rates will increase by 0.9% per side.

There will be a variation in the annual increase dependent on the actual method adopted by the SC in allocating the increases to the NRA 60 and 65 groups, above and below the YMPE. A decision is expected in late August. The combined rate increase over the 3 years is 38% over current contribution amounts.

ii) Temporary Benefit Reductions

Effective Jan.1, 2013 the pre-retirement indexing and current subsidies on termination before early retirement eligibility will be temporarily suspended during the currency of these temporary contribution increases. The OMERS Actuary estimates these changes reduce the contribution increases which might otherwise be required by 0.4% per year.

iii) Other Aspects of the SC Decision

1. The SC agreed to opt out of the grow-in provisions imposed by provincial legislation earlier this year, which action potentially avoids a further deficit increase of \$1 billion.
2. The SC agreed to develop a Strategic Plan Design and Objectives Statement (SPDOS) to “address the appropriate balance of contribution rate changes, benefit level adjustments, establishment of a reserve... to achieve and maintain a sustainable funded status”. If unsuccessful in developing such a Statement in 2010, the SC has agreed that it will refer the issue to binding third party arbitration in 2011.

It is MEPCO’s hope that such a Statement would contribute to prudent plan management and cost containment. MEPCO will continue to provide actuarial and legal assistance to its SC representatives in this endeavour and of course keep municipal employers informed of developments.

For More Information

More information about OMERS, the Sponsors Corporation and these pension matters is available on the MEPCO website (www.mepco.ca) and greater detail on the temporary plan changes and impacts is available via (www.omers.com).