MEPCO

Municipal Employer Pension Centre of Ontario

OMERS UPDATE: May 17, 2011

2011 OMERS Specified Plan Change Proposals

Each January, the OMERS Sponsors Corporation (SC) begins its cycle for considering Specified Plan Change (SPC) proposals. The Specified Plan Change Process includes the development of requests for plan changes by OMERS sponsor representatives, tabling of formal proposals and SC Board due diligence and consideration of proposals, leading to decisions by the end of June. As the 2011 deadline of May 13 for amendment or withdrawal of SPC proposals has passed, the SC Board will now begin its review. No proposal is effective until it is approved by the SC Board by a two-thirds majority and the Pension Plan is amended.

Individual plan sponsor representatives have put forward seven proposals, three of which are related to the Retirement Compensation Arrangement (RCA), designed to improve the RCA funded position through a larger proportion of member and employer contributions to be allocated to the RCA (two proposals) and through increasing RCA contribution rates. The four remaining proposals would affect pension benefits generally and improved benefits of emergency service employees, including extending NRA 60 benefits to police civilians and paramedics, reducing contribution rates for Supplemental Plan benefits and adjusting the blending of contribution rates between NRA 60 and NRA 65 benefits. Please refer to the attached summary chart.

The SPC proposals will be considered by the SC Board in the context of the approved Primary Plan Statement of Plan Design Objectives and Strategy (SPDOS), which guides longer term plan design. A separate SPDOS will also be developed for the RCA by June, 2012 to provide longer term perspectives to guide the SC Board in its consideration of RCA SPCs. The SC Board will vote on the proposals at meetings scheduled in late May and late June.

The MEPCO Board will be reviewing the 2011 Specified Plan Change proposals, in conjunction with Aon Hewitt actuarial staff, in order to provide input to the AMO SC Board (MEPCO) representatives' consideration of the proposals. A subsequent communiqué will be forwarded to MEPCO members outlining the impacts of the proposals, once the actuarial analysis is completed.

Detailed information on the OMERS Specified Plan Change Process and the 2011 Specified Plan Change proposals is available at http://www.omerssc.com/index.cfm?pagePath=Plan_Design_Changes/2011_Plan_Changes/2011_Specified_Plan_Changes&id=31523

Summary of Proposed OMERS Specified Plan Changes: 2011

Proposed Change **Go to** **http://www.omerssc.com/index.cfm?pagepath=Plan_Design_Changes/2011_Specified_Plan_Changes&id=31523** **for the redlined amendments to original proposals.**	**Who is Impacted and effective date of proposed change**	**Requested by**	**Rationale Provided by Proponent**
SPC #01-11(a) – Floating Earnings Threshold, Tabled April 28, 2011; Amended May 10, 2011 per underlining. ***SC may adjust the threshold (upwards or downwards) for directing contributions to the RCA periodically, based on the RCA cash flow requirement projection as recommended by the OAC actuary. The required adjustment to the threshold at any given date will be based on the latest available cash flow projection and the objective of streamlining enough contributions to the RCA fund to avoid complete asset depletion for at least 30 years from the effective date of the most recent adjustment of the threshold.*** ***For 2012, based on the preceding criteria, it is proposed to set the threshold at 95% of the earnings amount that generates the maximum retirement benefit under the Income Tax Act (ITA) annually. The cash flow projection and the associated adjustment to the threshold, if required, must be conducted and implemented at least once every 5 years. Note: The cap imposed by the ITA for 2011 is $143,912.25.***	All active members and employers of the Primary Plan and the RCA. Effective date would be January 1, 2012	Electricity Distribution Association (EDA) [Employer Representative]	The RCA is not subject to the Ontario Pension Benefits Act (PBA) and does not have statutory minimum funding requirements. The RCA is not fully pre-funded in the same way as the Primary Plan and has a deficit for financial reporting purposes.
SPC #02-11(a) – Freeze Earnings Threshold, Tabled April 28, 2011; Amended May 10, 2011 per underlining. ***The earnings threshold for 2012 and each subsequent year thereafter, be frozen at the 2011 level ($143,912.25), subject to compliance with the ITA and the PBA and until amended by the SC, based on the recommendation of the OAC actuary. The earnings threshold for a given year, as defined above, may not fall below 90% of the amount that would generate the***	All active members and employers in the Primary Plan and the RCA.	Electricity Distribution Association (EDA) [Employer Representative]	The RCA is not subject to the Ontario Pension Benefits Act and does not have statutory minimum funding requirements. The

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maximum retirement benefit under the ITA for that year. ***The frozen threshold to be reviewed at least once every five years by the OAC Board actuary, with adjustments as necessary to be determined by the SC.***	Effective date would be January 1, 2012		RCA is not fully pre-funded in the same way as the Primary Plan and has a deficit for financial statement reporting purposes. Freezing the threshold at the 2011 level (subject to the 90% minimum and a review at least once every 5 years) would allow for additional contributions to flow into the RCA until the SC is satisfied that sufficient funding exists to address future obligations.
SPC #03-11(a) – RCA – Contribution Threshold 10:1, Tabled April 28, 201; Amended May 13, 2011 per underlining. ***Contribution rates to the RCA to be set at least 1% higher than the corresponding above-YMPE contribution rates to the Primary Plan. For greater clarity, the increased RCA contribution rates will apply to earnings above the Contribution Threshold [CT] (the threshold for directing contributions to either the Primary Plan and the RCA). Effective January1, 2012 and annually thereafter, the threshold for allocating contributions between the Primary Plan and the RCA (Allocation Threshold [AT] is defined to be a value within a corridor of 75% to 125% of the Contribution Threshold for that year. Contributions related to earnings at or above the***	All active and future members and employers of the RCA. Effective date would be January 1, 2012.	Ontario Professional Firefighters Association (OPFFA) [Employee Representative]	The proposal addresses the tax inefficiency of the RCA, i.e. the 50% refundable tax account, by minimizing RCA contribution amounts as long as the Allocation Threshold (AT) is above the Contribution Threshold

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AT, will be directed to the RCA and contributions related to earnings at or below the AT will be directed to the Primary Plan. ***The SC will be adjust the AT annually within the 75% to 125% corridor, on the basis of the RCA cash flow projection determined by the OAC actuary, with the objective of avoiding complete asset depletion of the RCA fund for at least 10 years from the effective date of the latest review of the AT. The 10 year "no depletion" requirement is re-established yearly in conjunction with the review and update (if applicable) of the AT.*** ***Effective January 1, 2012, the AT will be defined to be 125% of the 2012 CT, subject to annual adjustments as defined above. Notwithstanding the above, the corridor limits, the minimum 1% differential with the Primary Plan contribution rates and the 10 year no depletion objective, must be reviewed at least once every 5 years, and be adjusted by the SC as necessary. No changes are made to the benefit formula or any other provisions of the Primary Plan.*** ***Note: The most significant amendments have been made to this SPC proposal. The concepts of a Contribution Threshold and an Allocation Threshold have been added regarding RCA contribution rates and the direction of contributions to either the RCA of Primary Plan. Specific objectives have been added regarding asset depletion.***			(CT) and is within the prescribed corridor. The possibility and timing of depletion of the RCA fund have been identified as the "funding risk" related to RCA financial management and adjusting the AT annually to avoid fund depletion for at least 10 years, minimizes the funding risk. Increasing RCA contribution rates recognizes the higher cost of providing the same benefits, given the tax inefficiency.
SPC #04-11 – NRA 60 – Police Civilians, Tabled April 28, 2011 ***Make available NRA 60 benefits to members of the Primary Plan who are police civilians and whose employers change to NRA 60 for this class of members.***	All current and future members in the class of police civilians whose employer elects to change to	Police Association of Ontario (PAO) [Employee Representative]	Police civilians (e.g. call answering, dispatch, handling of prisoners) experience pressure and stress that often results in

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	NRA 60. Effective date would be January 1, 2012.		burnout, emotional and physical illness.
SPC #05-11 – NRA 60 – Paramedics, Tabled April 28, 2011 ***Amend the Primary Plan to allow employers to provide NRA 60 benefits to paramedics.***	All Plan members who are paramedics. Effective date would be January 1, 2012.	Canadian Union of Public Employees (CUPE) [Employee Representative]	The Income Tax Act allows paramedics to be treated in the same way as firefighters in their pension arrangements.
SPC #06-11(a) – SUPP PLAN – Contribution Rates and Rebound Costs, Tabled April 28, 2011; Amended May 9, 2011 per underlining. ***Update the Police, Firefighters and Paramedics Supplemental Plan costs and Primary Plan rebound costs (adjustment to contribution rates to account for members' early retirement), related to Supplemental Plan benefit provisions, i.e. accrual rates, the 80/85 factor, BAE (Best Average Earnings) over three or four years, i.e. BAE 3 and BAE 4. Primary Plan rebound costs for 8085 Factor adjusted from "Negligible" to "None."***	All members and employers who participate in the Supplemental Plan. Effective date would be January 1, 2012.	Police Association of Ontario (POA) and Ontario Professional Firefighters association (OPFFA) [Employee Representatives]	The current Supplemental Plan contribution rates and associated Primary Plan rebound costs are based on 2006 membership data and a 2007 study of actuarial assumptions and methods. The Supplemental Plan and related Primary Plan rebound costs should reflect updated information.

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SPC #07-11 – PP/RCA – Contribution Rate Methodology, Tabled April 28, 2011 ***The difference in the blended contribution rates between NRA 60 and NRA 65, in 2012 and beyond, to be based on the difference in cost due strictly to the difference in benefits between NRA 60 and NRA 65 ("benefit differential method".)***	All active members and employers of the Primary Plan and RCA Effective date would be January 1, 2012.	Police Association of Ontario (POA) and Ontario Professional Firefighters Association (OPFFA) [Employee Representatives]	Given that a defined benefit plan is designed to share risks and rewards across the membership base, NRA 60 members should be treated like all other OMERS Plan members for pooling purposes and differences in the contribution rates between NRA 60 and NRA 65 should be based solely on the costs of benefits that are unique to NRA 60.