

OMERS UPDATE: June 8, 2011

Impacts of Key 2011 OMERS Specified Plan Change Proposals and Status Update

Of the seven proposals put forward by individual plan sponsor representatives this year, several are proposals never tabled before and are generating new analysis for MEPCO. These include: *SPC #03-11 (a)* [Retirement Compensation Agreement (RCA) Contribution Threshold]; *SPC #06-11 (a)* [Supplemental PLAN for NRA 60- Contribution Rates and Rebound Costs]; and *SPC #07-11* [Primary Plan/RCA – Contribution Rate Methodology].

Proposal #03-11(a) is based on the premise that it is more tax-effective/cost-effective for contributions to be invested in the Primary Plan (PP) than the RCA (Retirement Compensation Arrangement). Currently 50% of the RCA contributions flow into a non-interest bearing RCA Account with the Canada Revenue Agency (CRA) (by law), and the remaining 50% of the contributions are invested in an RCA Trust Account. The proposal would “seed” the Primary Plan with RCA contributions, initially, and then draw down on these contributions to pay the benefits. To do so means changing how future contributions are allocated between the PP and the RCA. The RCA funding objective would be to operate the RCA on an ongoing basis to ensure that there is always a depletion period of about ten years being maintained. As such, the RCA would never be fully funded and its long term viability would depend on contributions from a robust, active membership. The proposal also calls for a 1 per cent increase in contribution rates beyond the Allocation Threshold, presumably to deal with RCA tax inefficiency (ITA limits) and the RCA funding deficit.

Highlight of Analysis: This approach from an investment earnings perspective has some merit for consideration, but the challenge is guaranteeing withdrawal in the future. To ensure this, the approach will require an operational framework with no impediments to the SC redirecting and withdrawing contributions between the PP and the RCA, in the future. In terms of the 1% increase in contributions, MEPCO has concerns with it.

Status: Proposal has not been voted on as yet.

Proposal #06-11 (a) attempts to reduce the Supplemental Plan (SP) rates based on new, lower actuarial assumptions about costs, even though there is no experience with the supplemental plans for NRA 60. (These were imposed upon OMERS in Bill 2006, which devolved OMERS from provincial sponsorship.) The changes were drawn from the actuarial basis for valuing the PP. There is no mention of the triuing-up process should the SP get populated; however, from MEPCO’s perspective contribution rates would need to be reset in the first actuarial valuation report filed after an SP is populated. It is the SP’s costs that form the basis upon which unions and employers would ever bargain over the inclusion of the SP in a local labour agreement.

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Highlights of Analysis: Lowering the contribution requirements at this time, without plan experiences based on enrollment is not the typical approach and may not be the most prudent. Even lowering the contribution requirements without plan experience makes SPs still relatively expensive, and participation in the SP will increase overall pension costs for participating employers.

Status of Proposal: The proposal was voted on at the SC's recent meeting and will proceed to mediation – arbitration. MEPCO will track this process.

Proposal #07-11 would adjust the blending of contribution rates between NRA 60 and NRA 65 benefits and would change the proportion of 2012 and 2013 contribution rates borne by NRA 60 members. Fire and police employee position is that the current methodology does not reflect the pooled risk across all groups in the plan. This proposal is generating some dialogue on the employee side of the SC Board which has NRA 60 and NRA 65 employee representatives. We will see if there is any movement on the employee side.

Highlights of the Analysis: The proposal lowers NRA 60 contribution rates, rather than simply using the approach for 2011, i.e. increasing all rates by 1%. NRA contribution rates for all other OMERS members would see some level of increase.

Status of Proposal: Under consideration by the SC.

The Police Association of Ontario proposal (SPC # 04-11) to extend NRA 60 benefits to police civilians was dealt with and failed to carry on the vote.

We will keep MEPCO membership informed of the progress on the outstanding proposals as the discussions/negotiations proceed at the SC. It is also expected that the separate Statement of Plan Design Objectives and Strategy (SPDOS) for the RCA to be developed by June, 2012 will benefit from the discussion of the RCA SPCs.

Detailed information on the OMERS Specified Plan Change Process and the 2011 Specified Plan Change proposals and their status is available at:

http://www.omerssc.com/index.cfm?pagePath=Plan_Design_Changes/2011_Plan_Changes/2011_Specified_Plan_Changes&id=31523

The Municipal Employers Pension Centre of Ontario (MEPCO)

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