MEPCO
MUNICIPAL EMPLOYER PENSION CENTRE ONTARIO

MEPCO UPDATE

October 9, 2018

MEPCO ENDORSES IMPORTANT PLAN CHANGES REQUIRED FOR OMERS SUSTAINABILITY

At its meeting of September 17, 2018, the MEPCO Board completed its assessment of the OMERS Comprehensive Plan Review (CPR) proposed plan changes. The objective of the OMERS CPR, initiated in the fall of 2017, is to develop potential OMERS Plan design options to ensure that the Plan remains sustainable and affordable now and in the future for employers and new generations of Plan members.

The CPR is the first fundamental review of the OMERS Plan in 50 years. A lot has changed since the inception of the plan and anticipating and actively managing these developments is critical to Plan sustainability. At its July 26, 2018 meeting, the AMO Executive charged the MEPCO Board with the responsibility to respond on behalf of AMO and MEPCO members, to the OMERS Sponsors Corporation Board on the proposed Plan changes released for consultation with OMERS Plan sponsors and stakeholders.

While recent annual net investment returns have exceeded benchmarks, the Plan has not yet recovered from the 2008 financial crisis. The OMERS Plan is 94% funded, while comparable plans are in surplus. Plan underfunding is aggravated by a relatively high discount rate. There is a $200 billion difference in current OMERS Plan assets and expected pension obligations. OMERS Plan maturity means that there will be fewer members to make up for potential investment losses, while membership longevity will increase Plan costs and liabilities.

The OMERS Plan design options, impacting future service and not affecting retirees were selected from a broader range of potential changes. These changes were based on an assessment of key economic and Plan demographic developments that will affect the viability of OMERS. These developments are confronting all comparable Ontario pension plans and their capacities to continue to provide meaningful benefits. Many of these comparable public sector plans have already made adjustments to respond to demographic changes and improve plan sustainability. It is time for OMERS Plan sponsors to follow the lead of these plans to implement sustainability measures, which have led to full plan funding or surpluses to enable them to better manage future challenges.

At its September meeting, the MEPCO Board endorsed specific Plan proposed design changes that were released in July for consultation with OMERS Plan sponsors and stakeholders.

The MEPCO Board has advised the AMO representatives on the OMERS Sponsors Corporation Board of its support for the following changes, to secure greater OMERS Plan sustainability and cost savings and increased intergenerational equity:

- conditional indexing for future service, as a priority Plan change;
- modification of early retirement subsidies; and
- Adjustment of the OMERS pension formula to reflect the new CPP enhancement Yearly Additional Maximum Pension Earnings (YAMPE) level, which would also save contribution costs and simplify Plan administration.

Other proposed Plan changes including elimination of the 35-year cap for credited service and Plan eligibility changes that would provide access to paramedics to Normal Retirement Age (NRA) 60 benefits and require mandatory Plan membership for non-full time employees, would lead to increased employer and employee contribution costs, with little, if any, Plan sustainability benefits. Given municipal employer positions on the need to implement meaningful OMERS Plan sustainability levers, capping/reducing contribution rates and securing greater member intergenerational equity, the MEPCO was unable to support these Plan changes.

The CPR consultation process will continue through October via sponsor forums, focus groups and member outreach. Currently, the SC Board expects to reach a final decision on the proposed changes in November.

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