



For Office Use Only:

RCA – Contribution
Threshold 10:1

SPC #03-11(a)

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Amended May 13, 2011

OMERS Pension Plan(s) SC Member Request for a Specified Plan Change

As per SC Communications Policy: Specified Plan Change proposals remain **CONFIDENTIAL until formally submitted for consideration at an SC board meeting*

Requested by:

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(Please Print)

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Date Prepared:

April 28, 2011/Amended May 13, 2011

Pension Plan and Relevant Area of Change

Primary Plan Supplemental Plan for Police, Firefighters and Paramedics RCA

Proposed Change to Current Provision

1. General description of current provision

The benefit provisions under the Primary Plan are limited to the maximums under the Income Tax Act (ITA). The RCA provides the same benefits as the Primary Plan but for amounts that are in excess of the ITA maximum limits. Benefits payable on retirement are fully indexed to increases in the CPI (limited to 6% per annum).

The threshold for directing pension plan contributions to either the Primary Plan or the RCA (the "Contribution Threshold") is the earnings level that would generate the maximum retirement benefit under the ITA for the same year the contributions are made, based on the benefit formula under the Primary Plan (i.e. \$143,912 for 2011). The Primary Plan contribution limit is set under subsection 11(4) of the Primary Plan and the RCA contribution amount is set under the Sponsors Corporation By-Law #19.

2. Proposed change(s) to current provision

- a) Contribution rates to the RCA will be set to be at least 1% higher than the corresponding above-YMPE contribution rates to the Primary Plan. For the purpose of greater clarity, the increased RCA contribution rates will apply to earnings above the Contribution Threshold.
- b) Effective January 1, 2012, and for each subsequent year thereafter, the threshold for allocating contributions between the Primary Plan and the RCA (the "Allocation Threshold") is defined to be a value within a corridor of 75% to 125% of the Contribution Threshold for that year. Contributions related to earnings above the Allocation Threshold will be directed to the RCA and contributions related to earnings at or below the Allocation Threshold will be directed to the Primary Plan.

- c) The Allocation Threshold will be adjusted annually by the SC within the 75% to 125% corridor on the basis of the RCA cash flow projection as determined by the OAC actuary with the objective of avoiding complete asset depletion under the RCA fund for at least 10 years from the effective date of the latest review of the Allocation Threshold. The 10-year “no depletion” requirement is re-established each year in conjunction with the review and update (if applicable) of the Allocation Threshold.
- d) Effective January 1, 2012, the Allocation Threshold will be initially defined to be 125% of the 2012 Contribution Threshold, subject to subsequent annual adjustments as defined in 2c.
- e) Notwithstanding the above, the corridor limits, the minimum 1% differential with the Primary Plan contribution rates and the 10-year RCA fund “no depletion” objective must be reviewed at least once every 5 years and, if necessary, adjusted to a level as determined by the SC.

Overall contribution rates for members and employers to the Primary Plan are not intended to be materially impacted in any way solely by application of this proposal.

No changes are made to the benefit formula or any other provisions under the Primary Plan.

3. Effective date of change. If a proposed variation of the change requires different effective dates then set out (e.g. all members [date 1], all new members [date 2]).

The proposed changes under 2a) are effective January 1, 2012, subject to SC legal review of sufficiency of notice period.

The proposed changes to the threshold under 2b), 2c) and 2d) are effective January 1, 2012.

4. Who is impacted by the change and any variations thereof (e.g. all members, all new members or a subset of either: deferred members; retired members; employers; etc).

All current and future RCA members will be affected by the change to the RCA contribution rates. All contributing members and employers of the Primary Plan will also be affected as the allocation of contributions to the Primary Plan and the RCA may vary – there will be times when more contributions will be directed to the Primary Plan and there will be times when more will be directed to the RCA.

5. Provide key rationale for change.

- a. This proposal addresses the tax inefficiency of the RCA (as a result of the 50% refundable tax account) by minimizing contribution amounts to the RCA as long as the Allocation Threshold is above the Contribution Threshold and within the corridor described in 2b) above.
- b. The funding of the RCA is currently managed by performing regular cash flow projections to monitor the sufficiency of the contributions to meet the current benefit payments over an extended period of time. The possibility and timing of depletion of the RCA fund have been identified as the “funding risk” associated with the financial management of the RCA. Under this proposal, adjusting the Allocation Threshold annually with the objective of avoiding RCA fund depletion for at least 10 years minimizes this funding risk.
- c. Increasing the contribution rates to the RCA recognizes the higher cost of providing the same benefits under the RCA given the tax inefficiency related to the 50% refundable tax account.

All information contained in tabled Specified Change Proposals, including any estimate of the financial or other impact of such proposal, has been supplied by the proponent(s) of the proposed Specified Plan Change, and has not been independently verified for accuracy. Accordingly, anyone reviewing tabled Specified Change Proposals should make their own assessment of the potential impact of such proposal.

Attachment