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Sponsors Corporation

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

Contribution Rate Methodology – Capped Increases	SPC#06-12(a)

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(Please Print)

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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

SPDOS requires that all contribution rate changes be allocated:

> *"in a reasonable and fair manner, taking into consideration the normal costs of benefits attributed to such groups. A contribution rate study shall be undertaken every three to five years to ensure that the allocation to each group remains reasonable and fair. Any additional funding on account of deficit management or reductions in contributions on account of surplus management will be reasonably allocated to each group based on their relative share of the total liability in the Primary Plan."*

However, the actual allocation of contribution rates between the four component groups (NRA 60 and NRA 60, above and below the YMPE) for 2012 does not reflect the requirements of the SPDOS.

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2. *Proposed change(s) to current provision*

The Sponsors Corporation retained an Independent Actuarial Expert to review the appropriate allocation of contributions between the four component groups (Eckler Report), and, having received and reviewed the Independent Actuarial Expert's report, we propose implementing it by applying the following methodology:

A. Contribution Rate Studies

A contribution rate study shall be conducted by the AC every three years. The next contribution rate study shall be conducted in 2014 for the 2013 year. Contribution rates for the year following a study shall be allocated between the four component groups in accordance with this proposal.

B. Initial Determination of Contributions

1. Contribution rates for the four component groups shall initially be allocated as follows (the "base methodology"):

   (a) Under Deficit Management, current service costs shall be allocated to each of the four component groups in accordance with the normal cost of each group, and the funding of any deficiency shall be allocated among the four component groups using the equal deficit funding method as calculated by the AC Actuary.

   (b) Under Surplus Management, contribution rates for the four component groups shall be allocated in accordance with the normal cost of each group, and then reduced by any contribution rate reductions awarded under Surplus Management. Calculations shall be made by the AC Actuary.

   (c) Under Reserve Management, contribution rates for the four component groups shall be allocated in accordance with the normal cost of each group, and then reduced by any continuing contribution rate reductions awarded under Surplus Management. Calculations shall be made by the AC Actuary.

C. Volatility Limits

1. A contribution rate increase/decrease for any of the four component groups, shall be triggered only by:

   an increase/decrease in the overall blended contribution rate for the Primary Plan; or
   a contribution rate study.

   These triggers shall be known as rate-setting events.

2. In order to limit the level of volatility in contribution rates using the base methodology outlined in Part B, contributions may not vary between rate-setting events by more than the greater of the following two limits:

   (a) Contribution rate increases/decreases for any of the four component groups shall not increase by more than 170% of the change to the overall blended contribution rate for the Plan; and

(b) Contribution rate increases/decreases for any of the four component groups shall not exceed 10%, year over year.

For purposes of clarity, these limitations are not to be applied cumulatively, so that, for example, a contribution rate for a group could decrease by the greater of (a) 170% of the decrease in the blended rate and (b) 10% of the prior year's contribution rate, but could not decrease by more than the greater of these two limitations.

3. Where contribution rates for any of the component groups are below the limits outlined in paragraph 2 above, the rates for that group as determined by the base methodology shall be implemented subject to the implementation of adjustments under C4.

4. Where a component's contribution rate is limited by paragraph 2, the difference shall be allocated on a pro-rata basis among the other component rate groups to ensure that the overall funding requirement for the Plan is met – the excess contribution requirements above the cap shall be allocated to all unaffected groups in equal incremental increases of 0.01% in rates until the funding requirement is achieved.

5. Per side work-in-progress contribution rates shall be rounded to the nearest 0.01%. However, the final Plan contribution rates for members and employers shall be rounded to the nearest 0.1%.

6. Based on this methodology and the application of the limitation in C 2 (a) above, the contributions rates for 2013 are as follows:

	NRA 60 - % of Earnings	**NRA 65 - % of Earnings**
Below YMPE	10.1	08.9
Above YMPE	16.1	14.5
NRA Blend	12.8	10.2
Overall Blend	10.6	

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]).

January 1, 2013

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 members of the Primary Plan and the RCA.

5. *Provide key rationale for change.*

The Eckler Report is intended to guide the SC in making a principled decision on a fair and equitable allocation of contribution rates between the NRA groups, and the groups above and below the YMPE for 2013 and beyond. The methodology articulated in this proposal is aligned with the principles recommended by Eckler:

- Transparency
- Limited volatility
- Value for money
- Pooling
- Limited complexity
- Cost-effectiveness

Based on these principles, Eckler recommended a specific rate-setting methodology, which is implemented in this proposal. The purpose of the methodology is to calibrate contribution rates for the four component groups around a base methodology for each phase of the funding cycle. However, it is understood that if this calibration were triggered immediately, it could result in volatile changes in contribution rates for the four component groups. In order to limit this volatility and cushion any increase/decrease for any of the component groups, a formula is proposed to cap any increase/decrease to a specified level.

Under this proposal, contribution rates may not vary more than the greater of two volatility limits, which may be triggered either by an increase/decrease in the overall blended contribution rate for the Plan, or by a contribution rate study. In the case of an increase/decrease in the overall blended contribution rate for the Plan, any variation in rates for any of the four component groups shall be limited to 170% of the overall blended rate increase/decrease for the Plan (first limitation), provided this limit is greater than a 10%, year-over-year, increase/decrease in contribution rates for any of the component groups (second limitation). If the second limitation is greater than the first, the second shall be implemented.

In the case of a contribution rate study conducted by the AC every three years, a variation in the overall blended rate for the Plan may, or may not occur. However, a calibration of the rates for the four component groups will nevertheless be undertaken for the year following a contribution rate study; with the understanding that the contribution rates for the component groups may not vary more than the greater of the two volatility limits.

Where a component's contribution rate is limited by either of the volatility limits, the difference shall be allocated on a pro-rata basis to the other component rate groups to ensure that the overall funding requirement for the Plan is met.

As the first limitation is the greater of the two limits for 2013, it is the one that has application - this is expressed as 170% of 9.3%, the bended rate increase for the Plan. See chart below for rates for 2013. The rates established for 2013 will continue until triggered by either another increase/decrease in the overall blended rate for the Plan, or by a contribution rate study conducted by the AC every three years. The objective of the Eckler Report and this proposal is to align contribution rates for the four component groups with the base methodology over a period of time, while at the same time, giving consideration to limiting volatility.

Rates for 2013 per this proposal as compared to rates per base methodology and rates per actual cost as per OAC analyses

	Rates per this proposal		**Rates per base methodology – normal cost plus equal deficit funding**		**Rates per actual cost – August 2010 resolution & existing SPDOS provision**	
	NRA 60 - % of earnings	NRA 65 - % of earnings	NRA 60 - % of earnings	NRA 65 - % of earnings	NRA 60 - % of earnings	NRA 65 - % of earnings
Below YMPE	10.1	08.9	10.0	08.8	10.1	08.1
Above YMPE	16.1	14.5	16.6	14.4	19.2	15.4
NRA blended rate	12.8	10.2	12.9	10.1	14.2	09.9
Plan blended rate	10.6		10.6		10.6	
NRA differential	02.6		02.8		04.3	

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.