OMERS Sponsors Corporation

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

Contribution Rate Methodology - Fixed Differential

SPC#10-12(b)

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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

Annually, the Plan Actuary (OAC Board Actuary) provides information on the contributions required for the Primary Plan, expressed as one blended rate. This is then allocated to 4 "groups" (NRA 60 and NRA 65 for earnings above and below the YMPE). By extension, these rates have also been applied to the RCA.

Over time, the methodology for determining the rates for each of the four groups has varied. Most recently, OMERS SC hired an independent actuary to offer principles that the SC can adopt to set policy on how the rates should be established.

2. Proposed change(s) to current provision

Towers Watson, the OAC Board Actuary, has calculated the difference in the 2013 NC between NRA 60 and NRA 65 to be 2.8%.

Notwithstanding the SC resolution passed in August 2010, the difference in the blended contribution rates between NRA 60 and NRA 65, in 2013 and beyond, shall be based on a portion of the difference in the NC (Normal Cost) between the two NRAs which is attributable to the estimated cost of the benefits specific to the NRA60 group. This is estimated to be approximately 0.7% per side ("Benefit Cost Differential") and the cost for salary increments (including 3/6/9) which was reported at 0.3%, which suggests that balance of the difference of 1.8% (equal to 2.8% minus 1%) in the 2013 NCs between the two groups is attributable to non-benefit factors (e.g. demographics, behaviors and etc.) ("Non-Benefit Cost Differential").

Proposed contribution rates methodology

The contribution rate methodology for contribution rate changes which are effective on or after January 1, 2014 consists of:

The difference between the blended NRA60 contribution rate and the blended NRA65 contribution rate be set equal to:

a. the Benefit Cost Differential plus the cost of salary increments (including 3/6/9); and

b. half of the Non-Benefit Cost Differential

Deficit Funding/Surplus sharing will be split equally between the two NRA groups (i.e. equal deficit/surplus sharing using one rate for both NRAs).

The proposed method is a fixed differential method between the two blended rates.

Based on the current calculations, the fixed differential works out to be 1.9% (i.e. Benefit Cost Differential of 0.7% plus for salary increments which was reported at 0.3%, plus half of the Non-Benefit Cost Differential of 1.8% or 0.9%).

The difference in rates within each NRA above and below the YMPE will be based on the actuarial difference approach.

For 2013

Towers Watson provided the allocation of the 2013 normal actuarial cost into the 4 "groups", using the same methodology described in the 2011 Contribution Study and based on the updated December 31, 2011 valuation membership data. Under the actuarial difference approach, the spread between the below and above YMPE rates will be set at 5.6 per cent for NRA 65 members and 6.6 per cent for NRA 60 members. As a transition measure, for 2013 and until the next contribution rate change, the difference between the NRA 60 and NRA 65 blended rates will be equal to 2%.

The rates for 2013 under this methodology would be:

	NRA 60	NRA 65
Below YMPE	9.3	9.0
Above YMPE	15.9	14.6
Blended Rate	12.3	10.3

Future Implementation

The Benefit Cost Differential and Non-Benefit Cost Differential should be reviewed by the OAC actuary once every 3 years or before if a rate study is performed. The review would include the cost of the salary increments (including 3/6/9). The current differentials resulted from the methods used in 2011 contribution rate study and hence, the next study will be conducted in 2014 to determine and set contribution rates for 2015.

During a Surplus/Deficit period, equal sharing of deficits and surpluses between the two NRA groups will be followed. The necessary changes should be made to the SPDOS document to reflect the methodology outlined in this SPC.

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 active members and employers.

5. ***Provide key rationale for change.***

The proposed method satisfies each and every single principle as recommended in the independent advisor's report (see Appendix for supporting reasons) being:

- Transparency
- Limited volatility
- Value for money
- Pooling
- Limited complexity
- Cost effectiveness
- Controllable vs. non controllable experience

The report did not identify any pension plan that separated groups within a plan by Normal Cost. In fact, the method outlined in this proposal is similar to the methods other pension plans have adopted and as identified in the advisor's report.

This proposed methodology provides a balance between the objectives of the different participants by:

- Ensuring NRA 60 members pay costs related to NRA 60 benefits and salary increases;
- Ensuring that there is an ongoing relationship between contribution rates and normal cost (i.e. rates change as costs change); but
- Recognizes that some pooling and sharing of the non-benefit costs is appropriate because:
    - It is highly probable that there are other statistically significant groups within the OMERS plan that have distinct demographics and experience (non-benefit costs) and these costs are absorbed and shared by all plan participants. One example is that costs for males and females are different but OMERS does not charge different rates for these distinct groups. Similarly, even though NRA 60 members are an easily identifiable group, it does not necessarily mean they should be required to pay additional costs beyond the amount required to pay for their NRA 60 benefits.
    - Actuarial costs are best estimates and not precise as actual costs cannot be determined until the last payment is made. Pooling of all or part of the non-benefit costs recognizes these limitations and does not assign full weight/credibility to the estimated costs.

- One of the primary purposes of a large multi-employer pension plan like OMERS is to pool risk across a large number of members and employers.
- Gains and losses are not allocated among the four component groups so assigning costs/values of surpluses or deficits is, at best, an estimate.
- Affordability is an important principle - costs spread out over a larger group are more easily absorbed and have less impact on individual members.

In summary, under this proposal, NRA 60 members would be paying the costs related to their NRA 60 benefits. Additional costs related to experience and demographics would be partially pooled and shared with all plan participants. While full pooling is not achieved, this proposal does offer some limited pooling, striking a balance between known and unknown costs for different groups of participants.

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Appendix

Reasons How Fixed Differential Method ("FDM") Satisfies Contribution Rate Principles Defined By Independent Advisor's Report

Principle	Why FDM Supports These Principles
Transparency	The reasons for the differentials are clear and therefore easy to communicate and understand: • Difference in NRA rates due to benefit cost, salary increments and ½ of difference in non-benefit costs • Difference in below/above YMPE rates is equal to difference in below/above YMPE based on normal actuarial cost rates FDM can also be flexible by monitoring differentials periodically to reflect changing conditions.
Limited volatility	If overall plan blended contribution rate stays relatively stable from year to year, FDM will result in stable and predictable contribution rates for the 4 contribution groups. This makes it easier for employers and members to budget contribution rates for the following year.
Value for money	To benefit from the risk pooling features of the plan, some members will need to pay more (than actuarial cost to participate in the plan) and others to pay less. Over time members who paid a premium in the past may pay less in the future, and vice versa. Since FDM falls somewhere between Full Pooling and Actuarial Cost (August 2010 SC Motion), it offers both features which therefore provides members with value for money and affordability
Pooling	FDM is a good compromise between Full Pooling and the Actuarial Cost
Limited complexity	Since FDM is transparent and credible and has lower volatility, communication is straightforward based on principles that members and employers understand. Administration is also easier since method is well defined and predictable
Cost effectiveness	Since FDM represents a reasonable compromise between Actuarial Cost and Full Pooling, it benefits plan members as a whole and therefore promotes/encourages single plan participation. This then allows for reduced expenses and economies of scale.
Controllable Vs. Non Controllable Experience	FDM is designed to allocate what is readily identifiable (e.g. benefit cost and salary increments) to the NRA groups. Ideally this should be the only two components included in the differential. However, as a reasonable compromise, the differential also includes ½ the share of the non benefit cost between the NRA groups.