OMERS
Sponsors Corporation

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

For Office Use Only:

Pension accrual change to 1.85%	**SPC#14-01**
****Date Tabled:***	April 22, 2014

***** *As per 2014 SC SPC Communications Policy: Plan Change proposals* ***remain CONFIDENTIAL*** *until publicly posted on the SC website in mid-May.*

Requested by: Charlie Macaluso, Marianne Love, John Fleming, Bruce Stewart

(Please Print)

Date Prepared: April 21, May 13, 2014

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*

Current provision: Pension formula multiplier of 2.0% for earnings in excess of the YMPE (Year's Maximum Pensionable Earnings for CPP as set by Canada Revenue Agency.)

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

- Apply a reduced multiplier of 1.85% in the pension formula for earnings above the YMPE (Year's Maximum Pensionable Earnings for CPP as set by Canada Revenue Agency.)
  This proposal will not affect any benefits based on service accrued before the effective date.

- Increase the maximum years of service accrual to 38 (from 35) to permit members to continue to achieve a pension with a 70% replacement ratio as is currently available.

- For example, in the year 2015, if a member's contributory earnings are $100,000 and the YMPE is set at $48,000, the reduced multiplier would apply only to $52,000 in calculating the pension.

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]).

All members - January 1, 2016

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).

Members having contributory earnings more than the YMPE (Year's Maximum Pensionable Earnings for CPP as set by Canada Revenue Agency) will accrue a slightly lower amount of benefit.

However, all members will continue to be able to earn an OMERS pension of 70% (before integration) should they choose to accrue additional years of service beyond the current 35 years.

5. Provide key rationale for change.

The grim economic picture facing Ontario and its citizens impacts on the affordability and sustainability of the current OMERS Plans. This is especially true when it is unlikely that current contribution levels can be reduced to normal cost levels for many years. In fact there is a real prospect that contributions may increase as set out in the 2014 projections.

Current members and their employers should be protected as much as possible against further contribution increases. If earnings of the OMERS plans in the next few years do not surpass on average the assumed rate of 6.5% further increases in contributions and reduced benefits may be required under SPDOS. To attempt to avoid such an occurrence it is proposed to reduce benefits accrued by members to the OMERS plans after December 31, 2015.

Due to the $8.6 Billion funding deficit, the contribution rates are currently at an all-time high, putting a significant strain on members and their employers, at a time when our economy is also under stress.

The impact is not material for those close to retirement (e.g. 30*2% + 5* 1.85% = 69.25% versus 70%) and represents a gradual phasing in of the benefit impact, but has an immediate impact on funding.

Reducing the accrual rate is a tax efficient method of changing the plan terms. Reducing the accrual rate will increase the amount of RRSP room and allow additional AVC contributions for those making more than the YMPE.