

RCA Restrictions

SPC #01-12(b)

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

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Requested by:

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2012

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

Currently, the only cap on the contributory earnings of OMERS members for the purposes of pension contribution & entitlement is a cap on the amount of incentive pay that can be included. There is no cap on other earnings.

2. Proposed change(s) to current provision

Effective Jan. 1, 2014, for any person enrolling in OMERS on and after Jan. 1, 2014, the contributory earnings of the member shall for the purposes of pension entitlement and contribution have their earnings capped at seven (7) times the YMPE. Effective Jan. 1, 2016, the contributory earnings of any member enrolled in OMERS prior to Jan. 1, 2014 shall for the purposes of pension entitlement and contribution have their compensation capped at seven (7) times the YMPE but this shall not impact nor affect pension entitlement earned prior to Jan. 1, 2016.

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 change in para 2 is to be effective for all members as of Jan.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).

Current and potential new members of the Plan who are or might be eligible for coverage under the Registered Compensation Adjustment plan.

5. Provide key rationale for change.

1. The changes proposed are premised on the fact that under the *Income Tax Act* a retirement compensation arrangement is a very inefficient method of attempting to fund pensions since 50% of the contributions made by members & employers/taxpayers are unavailable for investment. It is extremely unlikely that the benefits now provided under the RCA could ever be fully funded nor is there any belief that this might occur. At some time in the future the promises implied by linking the RCA "SEAMLESSLY" to the Primary Plan will have to be faced by members & employers/taxpayers. The proponents, therefore, prefer to reduce those benefits which are less important for a secure retirement in order to reduce the ultimate costs which will have to be faced by future generations of RCA members & employers/taxpayers.
2. The OMERS pension plan is intended for employees serving at the municipal level whether as employees of municipalities themselves or utilities, school boards or public protection agencies. The income security in retirement of these municipal employees should be the paramount purpose of the Primary Plan & the RCA. Under the Municipal Act & the Income Tax Act, we are informed that the methods of providing secure pensions for high earners in the municipal sector are limited; thus, we have the tax-inefficient RCA. The proposals would permit over time the pensionable earnings of high earners to be capped at 7 times the YMPE [in 2012 \$350,700]. In our view this responds to the reasonable pension requirements of the municipal sector. Moreover, such a compensation ceiling would cover fully 99.9% of high earners in the municipal sector.
3. We recognize that the short term funding of the RCA has been improved by carefully directing the flow of contributions between the Primary Plan and the RCA in order to insure that funding of RCA benefits is always in place for at least 20 years. We understand that there is no assurance that this may be sufficient in the long term. Thus, some reduction of benefits is necessary such as the proposed introduction of a compensation cap on contributory earnings & pension entitlement for higher earners.

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.