OMERS
Sponsors Corporation

For Office Use Only:

Reduce Indexing to 50%

SPC#02(a)-13

***Date Tabled:**	*April 17, 2013*
Date Posted:	*April 18/**May15***
Date Amended:	***May 13, 2013***

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

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

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(Please Print)

Date Prepared: April 15, 2013/**Amended May 13**

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*

Automatic indexing of pension benefits against CPI increases as measured by Stats Canada requires pre-funding which adds approximately 3.2% each year to the blended contribution costs of 21.3% (i.e.15% of total cost) according to the 'tool box' calculation provided by OAC staff.

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

(i) **SHIFTING the BURDEN & IMPROVING INTERGENERATIONAL EQUITY:** During this current period when the Primary Plan is in deficit we propose to modify the current automatic 100% indexing by providing for automatic indexing up to 50% of the CPI increases in the previous year. This means that it will be necessary to only pre-fund 50% of the anticipated CPI-related increases and will enable the Corporation to cease pre-funding the current 100% automatic increases during any year when the Primary Plan is in deficit (i.e. when special payments by members and employers above normal cost are required) for pension increases of more than 50% of the CPI increase in the previous year.

(continued……)

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

(ii) For each of the next 10 years from the effective date or at least until the Primary Plan is no longer in deficit [whichever shall first occur and in respect of retirees whose pension may be less in any year than what it would have been had this proposal not been implemented, the Corporation shall increase the pensions of such retirees so that it is not less than it otherwise would have been had this proposal not been implemented.

(iii) IT IS ANTICIPATED [assuming that the earnings assumption and other material assumptions of the Plan are realized] that there will be a significant reduction in liabilities of the Primary Plan. Therefore, on the next filing of the valuation of the Primary Plan contributions will be reduced to the minimum level permitted by law.

(iv) If and when the Primary Plan is no longer in deficit, the current automatic indexing provisions shall be automatically reinstated on a prospective basis under the same terms and conditions as were in effect on Dec. 31, 2012 to be effective from Jan.1 of the year when the actuarial valuation indicates the Primary Plan is no longer in deficit.

(v) [It is the intention of the proponents of this SPC that in the future the benefits which accrued on the basis of 50% indexing would be retrospectively restored to the same terms and conditions as were in effect on Dec. 31, 2012 to be effective from Jan.1 of the year when the actuarial valuation indicates the Primary Plan is in a sufficient surplus position such that either (i) the Plan would remain fully funded after the retrospective restoration of benefits or (ii) the Plan is fully funded but not after the restoration of benefits in which latter event contribution rates would be at least equal to the minimum required by law plus an annual special payment which would fund the retrospective benefit improvement over a 10-year period. No retiree or member would receive a greater pension under this provision than s/he would have received under the provisions in effect at Dec.31, 2012.]

(vi) The proponents of this SPC are prepared to give this assurance now provided (1) that SC can now give this assurance lawfully and (2) that the reduction in liabilities (approximately $3.5 billion) are not materially impacted by committing to such retrospective restoration now.

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 shall be effective 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.)

Employees becoming members of the Plan after Dec. 31, 2015 and members in the Plan as of Dec. 31, 2015 in respect of service after Dec. 31, 2015.

NOTE: *Members retiring after Dec. 31, 2015 will be entitled to 100% indexing in respect of service prior to the effective date.*

Current retirees will not be affected.

5. Provide key rationale for change

The current rate of contribution by members and their employers has never been higher in the 50-year history of OMERS. Given the state of the economy and other factors impacting on the Plan's funding, contributions may increase further. This is causing a significant reduction of members' take-home pay, especially when current levels of compensation increase are considered. Moreover, the matching high contributions of employers contributes to stresses on public expenditures at a time when taxpayers themselves impacted by the economy resist further increases in taxes and other service charges.

(i) By ceasing pre-funding of a portion of the CPI-related pension increase, the Corporation will reduce significantly the prospect of a further increase in the Fund's deficit and of further contribution increases. Contribution rate decreases may even result. Other Ontario jointly sponsored public pension plans have taken even more significant steps in respect to further contribution increases by eliminating future automatic indexing completely (Teachers) or by limiting increases based on CPI increases (HOOP). Other JSPP's have recently reached agreements with the Ontario Government which provide that benefit reductions will be implemented instead of further contribution increases if their deficits increase. By contrast, this proposal is limited and need not result in any appreciable reduction in benefits.

(continued……)

5. Provide key rationale for change *(continued……)*

(ii) The purpose of this Proposal is to shift some of the high cost burden from current members and their employers to ten or fewer years in the future when, according to projections by OMERS AC and its actuaries, there is a reasonable prospect of eliminating the deficit and reducing contribution levels. A disproportionate burden is being placed on current members and their employers to bear the historically high contribution costs caused in part by the devastating 2007-08 fiscal and economic crisis.

Conservative long-range projections by OAC staff indicate that the deficit may be eliminated by the 2027 to 2030 period and that contribution rates will then return to the level required to meet the normal cost of benefits. By eliminating some pre-funding of pension increases it is recognized that some of the current cost burden is shifted to the future. This is appropriate: intergenerational equity, one of the cornerstones of our SPDOS, is better served by that shift.