OMERS
Sponsors Corporation

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

For Office Use Only:

Reduce Indexing to 50%

SPC#02-13

***Date Tabled:** April 17, 2013*
***Date Posted:** April 18, 2013*

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

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) 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 & 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 & employers above normal cost are required) for pension increases of more than 50% of the CPI increase in the previous year.

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

(ii) 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 determine whether the pensions of such retirees should be increased. Any further pension increase beyond the indexed 50% shall be determined for that year by the Corporation as soon as possible after receiving the valuation of the Primary Plan for the previous year. In making its determination the Corporation will consider the current state of the Fund, the likelihood of further contribution increases being required in the next 5 years, the amount of CPI increase in the previous year and such other factors as the Corporation shall take into account in making its decision.

(iii) Upon the next filing of the valuation of the Primary Plan the contributions will be reduced to the minimum level permitted by law.

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, 2015 or as soon thereafter as effective notice of such change can be given but the effective date shall be no later than 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, 2013 & members in the Plan as of Dec. 31, 2013 in respect of service after Dec. 31, 2013.

NOTE: *Members retiring after Dec. 31, 2013 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

(i) The current rate of contribution by members & their employers has never been higher in the 48 year history of OMERS. Given the state of the economy and other factors impacting the Plan's funding, contributions are likely to 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.

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

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 & need not result in any appreciable reduction in benefits as the Corporation will determine in the circumstances of each year whether any further pension increase is required or justified (see criteria in paragraph 2 above).

(ii) 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 funding policy, is better served by that shift.

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.