

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

All Specified Plan Changes proposed by SC Members can be amended or withdrawn at any time and no proposal is effective until it is approved by the SC Board and the Pension Plan is amended and accepted for filing by the Financial Services Commission of Ontario. (As per By-Law #12 and Protocol.)

Requested by:

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(Please Print)

(Contact Information, Affiliation & Member Status on File)

Date Prepared:

April 12, 2010/Amended May 20

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

The threshold for directing pension plan contributions to either the Primary Plan or the RCA is the amount that would generate the maximum retirement benefit under the Income Tax Act (ITA) for the year the contributions are made and is set under the Sponsors Corporation By-Law #15.

2. Proposed change(s) to current provision

Periodically, as recommended by Towers Watson, (or the current actuary to the OAC Board), the contribution threshold shall be adjusted on the basis of the RCA cash flow requirement projection. The change in the threshold for the Primary Plan and RCA will be subject to not having the effect of increasing the Primary Plan contribution rate by more than .01% per side and will be effective January 1st of the year following formal receipt of the RCA cash flow projection by the Sponsors Corporation amending By-Law #15.

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, 2011

NOTE: Based upon the current level of RCA plan assets, it is assumed that any change to the contribution threshold will not be required for several years. This can be considered in the upcoming PDIC review of the RCA.

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 contributing members and employers will be affected as more contributions may be directed to the RCA (and fewer to the Primary Plan) during the periods when the threshold is lowered. The reverse happens when the threshold is increased. Due to the relatively small size of the RCA vs. the Primary Plan, the impact to the Primary Plan contribution rate is expected to be very minimal – e.g., if the earnings threshold is to be decreased by \$5,000, it would have the effect of streaming approximately \$1.5 million more into the RCA (or an increase in the RCA contribution levels by close to 15%); the corresponding impact to the Primary Plan contribution rate is approximately an increase of 0.005% per side.

5. Provide key rationale for change.

- 1) The RCA is not fully pre-funded in the same way as the Primary Plan and has a structural deficit.
- 2) The RCA is not subject to the Ontario Pension Benefit Act and therefore no mandatory solvency valuation exists. To satisfy its responsibilities to members OMERS needs to demonstrate that there is a plan in place to address current/future RCA funding issues.
- 3) The Primary Plan benefits are based upon the best 5 years average income for a member and by the very nature of such an arrangement OMERS incurs benefit liabilities for potential larger wage increases in the later years of a member's credited service that is funded through pooled plan resources. This can happen regardless of a member's earnings level. The ITA maximum pension rule, which became applicable to the Primary Plan from 1992, just happens to split the benefit offering into two tranches.
- 4) OMERS intent, in establishing the RCA, was to ensure that "Benefits are payable from the RCA on the same basis as they are from the Primary Plan and are computed such that the combined total of all benefits paid to members are as if the Primary Plan was not subject to any ITA pension restrictions." (RCA Valuation 2009) Based upon OMERS intent, and therefore financial obligation, the ITA pension restriction is an artificial barrier to maintaining the pension promise for plan members, for the best 5 years average, up to any salary level.

- 5) **When a plan member's earnings rise to a level that the ITA maximum limit is exceeded a top-up pension is provided from the RCA and pension contributions begin to flow into the RCA for the first time, the first year of real credited and funded RCA service. This could happen late in a member's career with limited member and employer contributions flowing into the RCA fund. However, OMERS mandates that the RCA must recognize all existing Primary plan credited service prior to this first year of contributions but no funds are transferred from the Primary Plan to compensate the RCA for accepting this past service pension liability. This mandated acceptance of past credited service without offsetting funding does not happen in any other plan to plan transfer of credited service under the Primary Plan [see (6) below and Attachment #1].**
- 6) Transfers of service into the Primary Plan require the affected member to fund past service if he or she wishes to have it recognized under the Primary Plan, however, members cannot purchase past service in the RCA.
- 7) Communications – Few if any OMERS presentations clearly differentiate between the Primary Plan and the RCA but tend to simplify the presentations with a singular "plan" focus. The annual "Financial Information" statement sent to all pensioners provides "Primary Plan RPP monthly pension amount details" along with "Primary Plan RCA monthly pension amount details". Communications to plan members is not clear that the RCA is a separate stand alone pension plan but rather indicates that there is only one plan. Few if any RCA contributors/pensioners are likely aware of the two plan distinction. This is understandable given point #4 above.
- 8) The known RCA pension shortfall amounts to an inherent legacy cost that result in intergenerational contribution inequities if the pension promise is not properly funded or options (i.e. a threshold change) utilized for funding on a planned cash flow basis.

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.