OMERS
Sponsors Corporation

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

Contribution Rate Methodology -1 % Differential

SPC#09-12

Date Tabled: *April 26/2012*
Date Posted: *April 30*

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(Please Print)

Date Prepared: April 25, 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

Annually, the Plan Actuary (OAC Board Actuary) provides information on the contributions required for the Primary Plan, expressed as one blended rate. This is then allocated to 4 "groups" (NRA 60 and NRA 65 for earnings above and below the YMPE). By extension, these rates have also been applied to the RCA.

Over time, the methodology for determining the rates for each of the four groups has varied.

2. Proposed change(s) to current provision

Towers Watson, the OAC Board Actuary, has calculated the difference in the 2013 NC between NRA 60 and NRA 65 to be 2.8%.

Notwithstanding the SC resolution passed in August 2010, the difference in the blended contribution rates between NRA 60 and NRA 65, in 2013 and beyond, shall be based on the difference in the NC (Normal Cost) between the two NRAs which is attributable to the estimated cost of the benefits and salary increases specific to the NRA60 group. The estimated cost for benefit differences is approximately 0.7% per side and the cost for the difference in salary increments (including 3/6/9) is estimated to be 0.3% per side for a total of 1%.

Proposed contribution rate methodology

The contribution rate methodology proposal for 2013 and beyond consists of two parts:

(A) The difference between the blended NRA60 contribution rate and the blended NRA65 contribution rate is set equal to the estimated cost of benefits and salary increase attributable to the NRA 60 group.

Deficit Funding/Surplus sharing will be split equally between the two NRA groups (i.e. equal deficit/surplus sharing using one overall rate for both NRAs).

The proposed method is a benefit and salary differential method between the two blended rates.

For 2013, the differential works out to be 1.0% (i.e. 0.7% plus 0.3%).

(B) Towers Watson provided the allocation of the 2013 normal actuarial cost into the 4 “groups”, using the same methodology described in the 2011 Contribution Study and based on the updated December 31, 2011 valuation membership data. Therefore, under this approach, the spread between the below and above YMPE rates will be set 5.6 per cent for NRA 65 members. Using the actuarial difference is preferred given the spread in salary for NRA 65 Members. For the NRA 60 rate, we will use the spread recommended by the OAC, assuming a spread of 4.5 per cent below and above YMPE. This method is appropriate given the relative balance in NRA 60 salaries.

The rates for 2013 under this methodology would be:

	NRA 60	NRA 65
Below YMPE	9.4	9.1
Above YMPE	13.9	14.7
Blended Rate	11.4	10.4

In addition, the difference in benefit costs and salary increases between the NRA group should be reviewed by the OAC actuary once every 3 years or before if a rate study is performed. The current differentials resulted from the methods used in 2011 contribution rate study and hence, the next study should be conducted in 2014.

During a Surplus/Deficit period, equal sharing of deficits and surpluses between the two NRA groups will be followed. The necessary changes should be made to the SPDOS document to reflect the methodology outlined in this SPC.

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, 2013

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 active members and employers.

5. *Provide key rationale for change.*

The method outlined in this proposal is similar to the methods other pension plans have adopted.

It provides a balance between the objectives of the different participants by:

- Ensuring NRA 60 members pay costs related to NRA 60 benefits and salary increases;
- Ensuring that there is an ongoing relationship between contribution rates and benefit costs (i.e. rates change as costs change); but
- Recognizes that pooling and sharing of non-benefit costs is appropriate because:
    - It is highly probable that there are other statistically significant groups within the OMERS plan that have distinct demographics and experience (non-benefit costs) and these costs are absorbed and shared by all plan participants. One example is that costs for males and females are different but OMERS does not charge different rates for these distinct groups. Similarly, even though NRA 60 members are an easily identifiable group, it does not necessarily mean they should be required to pay additional costs beyond the amount required to pay for their NRA 60 benefits.
    - One of the primary purposes of a large multi-employer pension plan like OMERS is to pool risk across a large number of members and employers.
    - Gains and losses are not allocated among the four component groups so assigning costs/values of surpluses or deficits is, at best, an estimate.
    - Affordability is an important principle - costs spread out over a larger group are more easily absorbed and have less impact on individual members.

In summary, under this proposal, NRA 60 members would be paying the costs related to their NRA 60 benefits and salary increases. Additional costs related to experience and demographics would be pooled and shared with all plan participants.