Date:	June 28, 2018
To:	Joe Farag, Interim Chief Financial Officer, City of Toronto
	Joe Pennachetti, OMERS Sponsors Corporation
From:	Paul Harrietha, CEO, OMERS Sponsors Corporation
Re:	**Recommended plan design options**

Introduction

At the June 5, 2018 Government Management Committee (GMC), I understand that you were requested by the Committee to "report to the July 3, 2018 GMC Meeting with an update on the OMERS 'decision in principle' options on change to OMERS."

On June 27, 2018, the Board of the OMERS Sponsors Corporation met and approved recommended options (outlined below). These options are being communicated for further consideration and consultation with Sponsors, key Stakeholders, and members prior to a final decision by the OMERS SC Board in November 2018.

To emphasize, the outlined options are NOT approved in principle. Rather, they have been tabled for consultation purposes only.

The Comprehensive Plan Review

The OMERS Sponsors Corporation (SC) is currently conducting a comprehensive review of the OMERS Pension Plans. The intent of the Comprehensive Plan Review is to ensure – in light of financial, social, economic, and demographic trends and challenges – that the Plans remain sustainable, meaningful, and affordable for members and related stakeholders. The formal resolution, approved in August of 2017, states that:

> *the SC Board undertake a comprehensive review in order to ensure the sustainability of the Plan over the longer term, and that this review and subsequent decisions be completed by June 30, 2018.*

The Board subsequently elected at its May 23rd meeting, by two-thirds majority vote, to extend the project completion date to November 2018 to accommodate additional analysis and an expanded consultation process.

Our starting points

The Comprehensive Plan Review is the first fundamental review of the OMERS Plan in 50 years. The objective of the exercise is to assess the Plan's financial health – and to identify potential OMERS Plan design options to ensure that the Plan remains sustainable and affordable now and in the future for employers, employees and a new generations of plan members. Much has changed since the inception of the Plan, and anticipating and actively managing these developments is simply a pension stewardship best practice.

OMERS Financial Health

OMERS effective management and investment strategy has realized strong short-term results. However, at the same time, the SC Board recognizes that the OMERS Plan continues to face a number of serious economic and demographic challenges – or "headwinds." Ongoing analysis confirm that the cost of providing benefits under the current plan design will increase over time – and significantly in some circumstances. This is largely the result of Plan maturity: the elevated and growing number of retired members relative to active members.

Despite strong returns in recent years, and assets of $95 billion, the OMERS Plan has not fully recovered from the 2008 economic crisis. It is currently 94% funded on a smoothed basis. OMERS anticipates full Plan funding by 2025, as long as investment return targets are met and there are no significant market downturns, which OMERS economist deems optimistic given historic cycles and aging populations in the developed world.

OMERS Plan liabilities on the other hand, are projected to exceed $200 billion by the mid-2030s. Achieving full funding is essential to keep contributions affordable and benefits meaningful. While it is important that annual OMERS investment returns continue to meet and exceed established benchmarks, analysis confirms that planned investment returns alone will not protect the Plan from future economic realities.

Recommended options for further consideration

Based on ongoing consultation with sponsors and other key stakeholders, and extensive financial modelling conducted by an independent third-party expert, the SC Board agreed on June 27, 2018, to recommend the following Plan options for consultation prior to a final decision in November:

Provision	Current Plan	Recommended option
Accrual rate	• Integrated 1.325% / 2% • Current YMPE	• Integrated 1.325% / 2% • New YAMPE (used in the enhanced CPP)
Service limit	• 35 years	• None (remove service cap)
Post retirement indexing	• Guaranteed	• 100% conditional • Subject to a revised Funding Management Strategy and a transition period to 2025, during which cost-of-living adjustments will be provided to affected members
Early retirement provisions	• Normal retirement age (NRA), 30 years of service, or 90 (85) points • 5% reduction per year or point prior to above	• NRA, 30 years of service, or 90 (85) points plus age 60 (55) • Available within 5 years of normal retirement • Age/points based on *contributory* service • Actuarial equivalent to NRA, otherwise
Non-full-time members	• Optional for non-full-time members who work 700 hours or earn 35% of YMPE (2 consecutive calendar years)	• Mandatory • Member choice if earning less than 35% of YMPE
NRA 60 for paramedics	• Optional for police and fire	• Optional for police, fire and paramedics

Collectively, the recommended Plan options will:

- enhance the sustainability and affordability of the Plan;
- broaden coverage for members within the sector;
- have a very limited impact on long-service members, given that the recommended changes are all prospective; and
- provide enhanced combined benefits (OMERS + Canada Pension Plan) for shorter-service members, including future members, in most circumstances.

Key considerations

- Any changes approved in November are unlikely to take effect before January 1, 2021.
- The approved Plan changes would only apply to service earned after the effective date of the change. The current rules would apply to all benefits accrued (earned) before the effective date.
- The changes will have no impact on current retirees – or members who retire before the effective date. In no case will benefits earned before the effective date be reduced.
- There is no intention to "de-index" pensions. Unlike "de-indexing," conditional indexing provides indexing when the Plan is financially healthy. The possible suspension, resumption and restoration of annual indexing will be guided by a formal Funding Management Strategy approved by the SC Board.

Next steps

It is important to note that the June vote does not constitute the confirmation of any Plan change(s). Under current SC policies and practices, the vote simply confirmed those options that will be presented to Sponsors and other stakeholders (including members) for further consultation.

The options will be communicated to stakeholders beginning the first week of July. Communication and consultation will be undertaken from July through November, 2018.

Using the collected data, the CEO of the Sponsors Corporation will recommend final Plan design changes, if any, for Board approval at its November meeting. The November voting protocols are as follows:

- Approve proposal – 2/3^{rds} majority
- Reject proposal – majority
- Amend proposal – 2/3^{rds} majority
- Refer to mediation/arbitration – majority

If and when any Plan changes are adopted formally, a full implementation, communication and education plan will be initiated.

For more information

If you have any questions, please feel free to contact me directly at pharrietha@omerssc.com or 416.814.6575. Information is also available on the SC website at www.omerssc.com.