

# INFORMATION REPORT

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	January 19, 2015
<b>SUBJECT/REPORT NO:</b>	2014 OMERS Proposed Plan Changes Considered by Sponsors Corporation (FCS15004) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
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<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance & Corporate Services Department
<b>SIGNATURE:</b>	

## Council Direction:

Not Applicable.

## Information:

The OMERS Sponsors Corporation (SC) Board makes decision regarding plan design, including benefit changes and contribution rates. The SC Board consists of 14 members, 7 of which are employer representatives and the remaining 7 are employee representatives. Proposed plan changes are accepted if approved by two-thirds of the SC Board members. A proposal is rejected only if it is rejected by a majority of the SC Board members. A proposal that is neither approved nor rejected will be referred to mediation by a majority vote.

At its June 25<sup>th</sup>, 2014 meeting, the OMERS SC Board considered the eight Specified Plan Change (SPC) proposals. Only one was approved; the proposal to change the 2015 contribution rates. Of the remaining seven, six did not receive the necessary two-thirds support of the Board and failed, and a seventh proposal was withdrawn.

## Proposal Approved

### 1) Change in Contribution Rates

The newly approved contribution rates result in a 0.1% reduction in the (Normal Retirement Age) NRA 60 contribution rates with no change to the NRA 65 contribution rates.

The contribution rates effective January 1, 2015 are as follows:

	NRA 60	NRA 65
Below CPP Earning Limit	9.2%	9.0%
Above CPP Earning Limit	15.8%	14.6%

The estimated annual savings for the City is \$123,000, which includes a \$73,500 savings for Police.

### **Summary of Proposals Defeated or Withdrawn**

#### **1) Pension Accrual Change to 1.85%**

For pension accrued after December 31, 2015, apply a reduced multiplier of 1.85% (from 2%) for earnings above the Year's Maximum Pension Earnings (YMPE) for CPP and increase the maximum years of service to 38 (from 35) to permit members to continue to achieve a pension with a 70% replacement ratio.

This proposal was submitted by employer representatives to address the \$8.6 billion funding deficit and all-time high contribution rates that have a significant financial strain on both members and employers. This change was estimated to save the OMERS fund \$0.2 billion over the next 10 years

#### **2) Early Retirement Reductions**

Pension accrued after December 31, 2016, will be reduced if retirement is more than 5 years before NRA. Members would still be able to retire within 10 years of their NRA but must be at least age 60 (NRA 65) or age 55 (NRA 60) to retire with an unreduced pension.

This proposal was submitted by employer representatives to provide a buffer against the possibility of future contribution rate increases. It is estimated that to avoid future contribution rate increases or reduced benefits, the plan would need to earn in excess of 6.5% per year. This change was estimated to save the OMERS fund \$0.7 billion over the next 10 years.

#### **3) Reduced Indexing**

Pension benefits accrued after December 31, 2015 would be indexed based on the following formula:

- 70% of CPI, for any increase in CPI up to 2.25%, plus:
- 100% of CPI, for any increase in CPI over 2.25%, up to the current cap of 6%

This proposal was submitted by employer representatives to ease the pressure on the plan. This change was estimated to save the OMERS fund \$2 billion over the next 10 years and would have allowed the fund to become fully funded sooner than projected.

4) Indexing Suspended for 5 years

Pension benefits accrued from January 1, 2017 to December 31, 2021 would not be entitled to the current indexing benefit of 100% of CPI up to a maximum of 6%.

This proposal was submitted by employer representatives to ease the pressure on the plan, members, employers and ultimately the effect this has on taxpayers to continue supporting this plan. The proponents also cited that other public pension plans have taken significant steps to avoid further contribution increases by eliminating future automatic indexing completely (Teachers) or by limiting indexing increases (HOOPP). This change was estimated to save the OMERS fund \$4 billion over the 5 year window.

5) Disability Waiver

For periods of disability with an onset date on or after January 1, 2016 both the employee and employer would be required to pay their contributions when the employee returns to work at any time and in any capacity. Currently, while an employee is on an OMERS approved rehabilitation program and receiving employment income, OMERS covers both the employee and employer contributions.

This proposal was submitted by employer representatives to provide equity among plan members so that all employees in receipt of compensation contribute to the plan. The estimated annual cost for the City is \$257,300 which includes a \$118,100 cost for Police.

6) NRA 60 Paramedics

Effective January 1, 2015, change the Normal Retirement Age from 65 to 60 for all current and future paramedics.

This proposal was submitted by employee and employer representatives based on the rationale that the Income Tax Act permits paramedics to be treated the same as police and firefighters in their pension arrangements.

This proposal was estimated to cost to the City \$88,900 in increased annual contributions.

7) NRA 60 Police Civilians (withdrawn by proponent)

Effective January 1, 2015, change the Normal Retirement Age from 65 to 60 for all current and future police civilians.

This proposal was submitted by employee representatives based on the rationale that police civilians experience elevated pressure and stress similar to police officers and firefighters and therefore their early retirement provisions should be the same as police officers and firefighters.

This proposal was estimated to cost the Police \$111,900 in increased annual contributions.