OMERS SC Funding Management Statement

SC CEO

Effective
June 24, 2020

SUMMARY

This Funding Management Statement (or Statement) provides policy direction to the SC Board when it makes Plan Design decisions pursuant to By-Law No. 12. In all circumstances, the SC Board must exercise its judgement based on the situation at the time, but particularly when situations arise which have not been contemplated by this Statement or where taking the actions proposed by this Statement would be imprudent due to the prevailing circumstances. The SC Board reserves the right to amend this Statement or make Plan Design decisions which do not follow this Statement, at its sole discretion.

Initial approval date:	June 24, 2020
Next review date:	June 2022
Frequency of review:	Every 3 years

Statement currently under review

1. Funding Target

For the purposes of this Statement, the funding target for the Primary Plan, when in deficit, is to return to a going-concern funded ratio of 100%. When not in deficit, the funding target is a going-concern funded ratio of 115%. For purposes of this Statement, the funding target and normal cost will include the value of the inflation adjustments in respect of credited service after December 31, 2022 under By-Law No. 20 (known as Shared Risk Indexing or “SRI”), in the amount and for the period determined by the SC Board.

2. Mechanisms to Achieve Objectives

The SC Board will annually review the current and projected funded ratios, risk metrics and other relevant information to assess the health and long-term viability of the Primary Plan. The SC will consider changes to benefit design (including inflation adjustments), contribution rates and reserves if doing so would improve the health and long-term viability of the Primary Plan.

To support this annual review process, the AC prepares an annual valuation report of the Primary Plan (“Annual Valuation”) which provides the minimum funding requirements pursuant to applicable pension legislation (hereafter referred to as the “Legislated Minimum Funding Rate”), and provides the Annual Valuation to the SC by no later than March 1st of each year. Additional projections, risk metrics and other relevant information are to be provided to the SC as soon as possible thereafter.

Following delivery of the Annual Valuation, the SC decides whether to consider changes under this Statement and to invoke the decision-making process outlined in By-Law No.12.

This Statement, in combination with By-Law No. 12, provides the structure for the SC to systematically review the status of the Primary Plan and a vehicle to ensure that all options are considered regarding the funding and benefit objectives.

3. Funding Management Strategy

Decisions related to the Primary Plan's benefits, contributions or reserves will consider the following:

i. Deficit: When an Annual Valuation of the Primary Plan indicates a going-concern funded ratio, based on the smoothed value of assets, of less than 100% the Primary Plan is in Deficit.

While in Deficit the blended contribution rate[1] must be no less than the Legislated Minimum Funding Rate, or such higher amount as the SC deems prudent.

Should an Annual Valuation show that the Legislated Minimum Funding Rate exceeds the currently established blended contribution rate, then the SC will make a decision to adjust the blended contribution rate, benefits or a combination thereof. The SC will consider the balance between the overall impact on contributions and benefits as set out in this subsection.

The blended contribution rate will first be increased until the total blended contribution rate reaches 19.5% of contributory earnings. Thereafter, benefit reductions will be implemented at an increasing rate to reduce the Legislated Minimum Funding Rate. Any "new funding", the difference between the Legislated Minimum Funding Rate and the greater of the currently established blended contribution rate and 19.5%, will follow the approach shown on page 5, *Appendix 1 – Funding Approach*.

The SC may wish to make a benefit reduction by reducing the amount of indexing provided under SRI for one or more of the subsequent adjustment years. Such a reduction may impact the going-concern liabilities and normal cost of the Primary Plan. In such circumstances, the portion of "new funding" which is met through benefit reductions will be determined in a manner which reflects both the liability and normal cost impact.

Alternatively, indexing could be maintained either in whole or in part by reducing other benefits and/or increasing the blended contribution rate.

For greater clarity, the benefit reductions effective January 1, 2013 which were approved by the SC prior to formal approval of this Statement shall be treated as though they were benefit reductions determined in accordance with this Statement.

ii. Partial Reserve: When an Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) of between 100% and 110% inclusive, the Primary Plan is in Partial Reserve. While in Partial Reserve the SC will consider adjusting benefits (and not the blended contribution rate) as follows:

- 100% to 105% - From 100% to below 105%, increase the amount of indexing under SRI for one or more of the upcoming and subsequent adjustment years, to as much as 100%. Such increase must not reduce the going-concern funded ratio to below 100%.

- 105% to 110% - From 105% to below 110%, prospectively[2] restore any other benefit reductions determined in a previous Deficit period or use the equivalent value to provide alternate benefits. Such benefit change may not result in an increase in the blended contribution rate, in which case restoration of any remaining benefit reductions or provision of alternate benefits will be deferred until the Primary Plan is in Full Reserve.

For greater clarity, the Primary Plan will not proceed to Full Reserve until the SC has set the SRI to 100% for the upcoming and all subsequent adjustment years, and the going concern funded status will be determined using SRI at 100% for all subsequent adjustment years. SRI at 100% for all subsequent adjustment years continues when the Plan is considered in Full Reserve.

Notwithstanding the above, the SC Board will not approve any measure in Partial Reserve that would reduce the funded status to below 100% (based on market value of assets), where such funded status reflects the value of all inflation adjustments consented to by the SC, for the period until the next required valuation.

[1] *The combined total of employer and member contributions expressed as a percentage of pensionable earnings.*

[2] *Prospective restoration of benefits means benefits begin to accrue on the basis that benefit reductions imposed in Deficit no longer apply*

iii. Full Reserve: When an Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) greater than 110%, and the other conditions under Partial Reserve have been met, the Primary Plan is considered in *Full Reserve*.

- 110% or more - When the Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) which is 110% or more, amounts subject to SRI will be increased to the amount they would have been, had SRI been 100% for all adjustment years since the inception of SRI. Any such measure will be limited in value to ensure the funded ratio is not reduced below 110% (on smoothed and market value of assets) and will apply only to future payment of such amount.

- 115% or more - When the Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) of 115% and the above adjustments have been completed, the SC will consider a benefit adjustment to reflect the pension value lost in any preceding years when SRI was less than 100%. Any such measure will be limited in value to ensure the funded ratio is not reduced below 115% (on both smoothed and market value of assets).

After the above adjustments are made, any remaining benefit reductions which took effect during a prior period in Deficit will be restored prospectively (or a benefit of equivalent value) and the blended contribution rate of the Primary Plan will continue at a rate which, based on the Annual Valuation, reflects the normal cost of the Primary Plan. The SC will not approve any additional contribution reductions or benefit improvements unless the going-concern funded ratio based on the lower of the smoothed value or the market value of assets exceeds 115%, and only after a formal sustainability study has been performed.

While the Plan is in Full Reserve the SC will consider the retrospective[3] restoration of benefit reductions (or another benefit improvement of roughly equivalent value) which took effect during a prior period in Deficit.

Following such retrospective restoration, any additional measures are intended to be implemented through a combination of decreases to contributions and increases to benefits based on the following:

- All such measures are split equally between decreases to the blended contribution rate and increases to benefits;

- All such measures are effective for an agreed temporary period of time of no more than 3 years (“Window”) unless the SC decides to make the changes permanent; and

- No measures will be taken if they would reduce the going-concern funded ratio (as defined here in this paragraph (iii)) below 115%.

The term “increases to benefits” above shall not include the retrospective reinstatement of benefits reduced during a prior period in Deficit, or to the inflation adjustment provided by SRI.

All changes provided for during a Window shall remain in effect (unless altered by a subsequent specified change proposal approved by the SC in accordance with By-Law No.12) during the Window or, if earlier, until an Annual Valuation indicates the going-concern funded ratio (based on the lower of the smoothed value or the market value of assets) has dropped to 115% or below.

If an Annual Valuation discloses a going concern funded ratio (based on smoothed value of assets) below 110%, the Plan shall proceed to Partial Reserve or Deficit, and the blended contribution rate will be no less than the normal cost of the Primary Plan determined reflecting the inflation adjustment provided by SRI at 100% for the upcoming and all subsequent adjustment years.

Usage of Target Discount Rate for (i) to (iii): The discount rate to be used in the determination of actions under this Statement is the discount rate that the AC would use to prepare the annual valuation for regulatory filing purposes (whether or not the annual valuation is filed). However, no actions in the Partial Reserve or Full Reserve categories which would decrease contributions or enhance benefits, other than granting of indexing, will be permitted unless the relevant thresholds articulated in Partial Reserve or Full Reserve have been achieved on the basis of a funded ratio determined using a real discount rate of 3.25% per annum.

[3] *Retrospective restoration of benefits means accrued benefits will be restored to what they would have been had no reductions been imposed during a period in Deficit.*

Measures in Deficit or Partial Reserve would not decrease the blended contribution rate to less than the amount of the Plan's normal cost determined based on a real discount rate of 3.25% and reflecting increases under SRI at less than 100% for all subsequent adjustment years.

4. Monitoring

Decisions related to the Primary Plan's benefits, contributions or reserves will consider the following:

On an annual basis the funded status of the Primary Plan is determined, and the SC evaluates the health and long-term viability of the Primary Plan. As a consequence of this annual review process, the SC may elect to file the actuarial report more frequently than required by the PBA.

The SC will review and update/confirm this Statement no less frequently than every three years. Notwithstanding the methodologies provided in this Statement, nothing in this Statement affects the existing terms of the OMERS Pension Plans and does not create a formal amendment to the OMERS pension Plans. No changes to benefits and/or contributions results solely from application of this Statement. Changes are made by a decision of the SC. All decisions made by the SC with respect to changes to benefits and/or contributions, either resulting from the application of this Statement or otherwise, must be enacted in accordance with SC By-Laws, and must otherwise comply with the requirements set out under the ITA, PBA, the OMERS Act and any other relevant legislation and regulations.

ROLES & RESPONSIBILITIES

Policy Approver	OMERS Sponsors Corporation Board	Responsible for approving the Policy
Policy Sponsor	CEO, OMERS Sponsors Corporation	Ultimately accountable for the Policy, including its development, implementation, and administration
Policy Manager	Executive Director, Plan Funding and Risk, OMERS Sponsors Corporation	Responsible for the design and operational effectiveness of the day to day administration of the Policy
Policy Monitor	Executive Director, Governance & General Counsel, OMERS Sponsors Corporation	Responsible for the monitoring, compliance, and reporting functions of the Policy

Appendix I – Funding Approach

Legislated Minimum Funding Rate[4] *(Employers and Members combined)*	**Benefit Reduction**
A total blended contribution rate of less than 19.5%	No changes to benefits
A total blended contribution rate of 19.5% or more but less than 21.5%	Approximately 32.5% of the “new funding” above 19.5% to be met through benefit reductions until the blended contribution rate reaches 21.5%
A total blended contribution rate of 21.5% or more but less than 22.6%	Approximately 50% of the “new funding” above 21.5% to be met through benefit reductions until the blended contribution rate reaches 22.6%
A total blended contribution rate of 22.6% or more	100% of the “new funding” above 22.6% to be met through benefit reductions

[4] *Contribution rates like the Legislated Minimum Funding Rate are comprise of two components:*
- *(i) Normal cost rates which reflect the normal cost (or current service cost) of the Primary Plan; and*
- *(ii) Rates over and above the normal cost rates which are used for the purpose of funding a deficit.*