

# Supplemental Plans Generic Information

Stakeholder Meeting  
September 23, 2005

# What are Supplemental Plans?

- Stand-alone registered pension plans – separate financially and actuarially from Primary Pension Plan (Basic Plan)
- Choice of benefits to supplement those provided under Primary Pension Plan – total benefits subject to Income Tax Act maximums
- Bill 206 allows for possible setup of one or more Supplemental Plans
  - Police and/or Firefighters
  - Other members

## What are Supplemental Plans? (cont.)

- No more than 2 to 3 Supplemental Plans in total, based on preliminary discussions with Canada Revenue Agency
- Additional regulatory compliance, administration and actuarial issues still to be identified, clarified and/or resolved
- Higher operation costs

# Why Supplemental Plans?

- Supplemental Plans provide flexibility in benefit arrangements through bargaining at local level
- Other vehicles do not provide same level of flexibility to tailor benefits
  - Retirement Compensation Arrangements (RCAs) - not cost effective
  - Supplementary Agreements - funding restrictions imposed by Canada Revenue Agency
  - Primary Pension Plan - inability to bargain pension benefits locally

## Process for Establishing Supplemental Plans

- Authority to establish Supplemental Plans rests with Sponsors Corporation once Bill 206 is passed
- Choices of benefits, or even packages of benefits, under Supplemental Plans can be broad or limited depending on wishes of Sponsors Corporation
- Local bargaining of Supplemental Plan benefit offerings occurs between employers and their various employee groups
- Administration of Supplemental Plans rests with Administration Corporation

# Possible Plan Benefits

- Current stipulations under Bill 206
  - Maximum annual accrual of 2% per annum based on highest 5 year average earnings and 0.6% integration with Canada Pension Plan (CPP)
  - 2.33% p.a. accrual for members of public safety occupations permissible but only for future service
  - 50% cost sharing between employers and members
- Other ideas
  - Final 3 year average earnings
  - 2.33% p.a. accrual applying to past service for members of public safety occupations

# Possible Plan Benefits (cont.)

## Primary Pension Plan:

2% p.a. accrual with 0.675% integration with CPP

Early retirement within 10 years before NRA

85/90 Factor for unreduced early retirement

5% p.a. early retirement reduction

## Possible Supplemental Plan Benefits:

1. 2.5% p.a. early retirement reduction
2. 80/85 Factor (10 years)
3. 80/85 Factor (15 years)
4. 75/80 Factor (10 years)
5. 75/80 Factor (15 years)
6. 25/30 and Out; No Age Limit
7. 0.6% integration with CPP
8. 2.33% Accrual - Integrated (future service)

## Other Examples:

9. 2.33% Accrual - Integrated (past & future service)
10. Final 3 year average earnings

# Example of Possible Structure

<u>SUPPLEMENTAL PLAN 1</u> Police/Fire						
<u>Employer 1</u>			<u>Employer 2</u>			<u>Others....</u>
Grp A	Grp B	Others...	Grp A	Grp B	Others...	
Benefit A	Benefit B		Benefit B	Benefit A Benefit D		

<u>SUPPLEMENTAL PLAN 2</u> Others						
<u>Employer 1</u>			<u>Employer 3</u>			<u>Others....</u>
Grp C	Grp D	Others...	Grp C	Grp D	Others...	
Benefit C Benefit D	Benefit E		Benefit D	Benefit C		

<u>PRIMARY PENSION PLAN</u> All Members
<i>Common benefits for all NRA 65 and common benefits for all NRA 60</i>





# Cost Elements

For this presentation, Supplemental Plan benefits are assumed to apply to all past service on inception of the Supplemental Plans, except for Item 8 – 2.33% Accrual

1. Going Concern Past Service Cost
  - To be paid off over maximum of 15 years
2. Going Concern Future Service Cost
  - Cost of new benefits earned in each future year
3. Initial Solvency Cost
  - Any initial solvency deficit required to be paid off over maximum of 5 years
4. Rebound Cost to Primary Pension Plan
  - Incremental cost to Primary Pension Plan due to expected behavioural change (e.g. higher incidence of early retirement) as result of entitlements under Supplemental Plan

## Cost Elements (cont.)

- Costing information provided as rough order of magnitude reference – they are generic, preliminary, non-employer specific
- Costs presented are actuarial costs based on current snapshot
  - Very rough indication of initial contribution rates (percentage of pay)
- Actual contribution rates have to be based on longer term projections and numerous other factors
- Start up costs not included

## Cost Elements (cont.)

- For consistency, same going concern assumptions and methods as previous costings are used
  - subject to future review of continued appropriateness
- Membership updated to December 31, 2004
- Solvency basis updated to September 2005
- Measured separately for entire NRA 60 membership and entire NRA 65 membership
- As Supplemental Plans are developed, many factors will evolve to cause costing information to change

# Summary of Supplemental Plan Costs

## – NRA 60

*Costs include all past service benefits*

Benefit NRA 60 Members (Active Members Only)		Going Concern		Solvency	Rebound Cost to Primary Pension Plan	Total Cost (With Solvency Funding)	Total Cost (Without Solvency Funding)
		Past Service Cost (% Of Earnings Over 15 Years)	Future Service Cost (% Of Earnings)	(% Of Earnings Over 5 Years)	(% Of Earnings)		
1	2.5% reduction per year	0.40%	0.40%	4.90%	0.45% for 15 yrs; 0.15% thereafter	6.15% for 1 <sup>st</sup> 5 yrs; 1.25% for next 10 yrs; 0.55% thereafter	1.25% for 15 yrs; 0.55% thereafter
2	80 Factor, up to 10 years before NRA	0.30%	0.30%	2.85%	0.45% for 15 yrs; 0.15% thereafter	3.90% for 1 <sup>st</sup> 5 yrs; 1.05% for next 10 yrs; 0.45% thereafter	1.05% for 15 yrs; 0.45% thereafter
3	80 Factor, up to 15 years before NRA	0.30%	0.30%	3.30%	0.45% for 15 yrs; 0.15% thereafter	4.35% for 1 <sup>st</sup> 5 yrs; 1.05% for next 10 yrs; 0.45% thereafter	1.05% for 15 yrs; 0.45% thereafter
4	75 Factor, up to 10 years before NRA	0.65%	0.65%	6.05%	0.45% for 15 yrs; 0.15% thereafter	7.80% for 1 <sup>st</sup> 5 yrs; 1.75% for next 10 yrs; 0.80% thereafter	1.75% for 15 yrs; 0.80% thereafter
5	75 Factor, up to 15 years before NRA	0.95%	0.80%	7.75%	0.40% for 15 yrs; 0.10% thereafter	9.90% for 1 <sup>st</sup> 5 yrs; 2.15% for next 10 yrs; 0.90% thereafter	2.15% for 15 yrs; 0.90% thereafter

# Summary of Supplemental Plan Costs

## – NRA 60 (cont.)

*Costs include all past service benefits except for Item 8*

Benefit NRA 60 Members (Active Members Only)	Going Concern		Solvency	Rebound Cost to Primary Pension Plan	Total Cost (With Solvency Funding)	Total Cost (Without Solvency Funding)
	Past Service Cost (% Of Earnings Over 15 Years)	Future Service Cost (% Of Earnings)	(% Of Earnings Over 5 Years)	(% Of Earnings)		
6 25 and Out, No Age Limit	3.40%	2.45%	6.10%	2.45% for 15 yrs; 0.60% thereafter	14.40% for 1 <sup>st</sup> 5 yrs; 8.30% for next 10 yrs; 3.05% thereafter	8.30% for 15 yrs; 3.05% thereafter
7 0.6% integration with CPP	0.40%	0.30%	0.35%	N/A	1.05% for 1 <sup>st</sup> 5 yrs; 0.70% for next 10 yrs; 0.30% thereafter	0.70% for 15 yrs; 0.30% thereafter
8 2.33% Accrual (Future Service Only)	0.00%	3.55%	0.00%	0.45% for 15 yrs; 0.15% thereafter	4.00% for 1 <sup>st</sup> 15 yrs; 3.70% thereafter	4.00% for 15 yrs; 3.70% thereafter
9 2.33% Accrual (Past and Future Service)	4.90%	3.55%	5.85%	0.45% for 15 yrs; 0.15% thereafter	14.75% for 1 <sup>st</sup> 5yrs; 8.90% for next 10 yrs; 3.70% thereafter	8.90% for 15 yrs; 3.70% thereafter
10 Final 3 Year Average Earnings	1.40%	1.00%	1.95%	N/A	4.35% for 1 <sup>st</sup> 5yrs; 2.40% for next 10 yrs; 1.00% thereafter	2.40% for 15 yrs; 1.00% thereafter

# Summary of Supplemental Plan Costs

## – NRA 65

*Costs include all past service benefits*

Benefit NRA 65 Members (Active Members Only)		Going Concern		Solvency	Rebound Cost to Primary Pension Plan	Total Cost (With Solvency Funding)	Total Cost (Without Solvency Funding)
		Past Service Cost (% Of Earnings Over 15 Years)	Future Service Cost (% Of Earnings)	(% Of Earnings Over 5 Years)	(% Of Earnings)		
1	2.5% reduction per year	0.45%	0.50%	3.95%	0.30% for 15 yrs; 0.10% thereafter	5.20% for 1 <sup>st</sup> 5 yrs; 1.25% for next 10 yrs; 0.60% thereafter	1.25% for 15 yrs; 0.60% thereafter
2	85 Factor, up to 10 years before NRA	0.25%	0.25%	1.85%	0.30% for 15 yrs; 0.10% thereafter	2.65% for 1 <sup>st</sup> 5 yrs; 0.80% for next 10 yrs; 0.35% thereafter	0.80% for 15 yrs; 0.35% thereafter
3	85 Factor, up to 15 years before NRA	0.40%	0.35%	3.95%	0.35% for 15 yrs; 0.15% thereafter	5.05% for 1 <sup>st</sup> 5 yrs; 1.10% for next 10 yrs; 0.50% thereafter	1.10% for 15 yrs; 0.50% thereafter
4	80 Factor, up to 10 years before NRA	0.60%	0.65%	4.40%	0.30% for 15 yrs; 0.10% thereafter	5.95% for 1 <sup>st</sup> 5 yrs; 1.55% for next 10 yrs; 0.75% thereafter	1.55% for 15 yrs; 0.75% thereafter

# Summary of Supplemental Plan Costs

## – NRA 65 (cont.)

*Costs include all past service benefits*

Benefit NRA 65 Members (Active Members Only)	Going Concern		Solvency	Rebound Cost to Primary Pension Plan	Total Cost (With Solvency Funding)	Total Cost (Without Solvency Funding)
	Past Service Cost (% Of Earnings Over 15 Years)	Future Service Cost (% Of Earnings)	(% Of Earnings Over 5 Years)	(% Of Earnings)		
5 80 Factor, up to 15 years before NRA	1.10%	0.95%	7.15%	0.45% for 15 yrs; 0.15% thereafter	9.65% for 1 <sup>st</sup> 5 yrs; 2.50% for next 10 yrs; 1.10% thereafter	2.50% for 15 yrs; 1.10% thereafter
6 30 and Out, No Age Limit	0.60%	0.35%	1.65%	0.25% for 15 yrs; 0.10% thereafter	2.85% for 1 <sup>st</sup> 5 yrs; 1.20% for next 10 yrs; 0.45% thereafter	1.20% for 15 yrs; 0.45% thereafter
7 0.6% integration with CPP	0.45%	0.50%	0.40%	N/A	1.35% for 1 <sup>st</sup> 5 yrs; 0.95% for next 10 yrs; 0.50% thereafter	0.95% for 15 yrs; 0.50% thereafter
10 Final 3 Year Average Earnings	0.65%	0.70%	1.15%	N/A	2.50% for 1 <sup>st</sup> 5 yrs; 1.35% for next 10 yrs; 0.70% thereafter	1.35% for 15 yrs; 0.70% thereafter

# Possible Factors Affecting Actual Costs and Contribution Rates

- Additional regulatory compliance, administration and actuarial issues which could surface and impact final design and delivery of Supplemental Plan benefits
- Local employer profile (e.g. age and length of service)
- Plan and market experience (e.g. actual plan early retirement experience)
- Funding policy to be adopted (e.g. valuation method)
- Higher operation costs



# Illustrations

- Developed for sole purpose of assisting in understanding information provided and potential cost structure of Supplemental Plans – not to be construed as definitive final cost structure or contribution rates
- Two examples are developed:
  - Example 1 – Application for typical NRA 60 member and his/her employer
  - Example 2 – Application for typical NRA 65 member and his/her employer
  - Example 3 – Application for hypothetical employer

## Example 1 – NRA 60

- Profile of a typical NRA 60 member:

Average age:	41
Average credited service:	14 years
Average pensionable earnings:	\$69,500

- Benefit offering:
  - Item 4 (75 Factor, up to 10 years before NRA)

## Example 1 – NRA 60 (cont.)

Potential annual cost structure as % of pay:

	Item 4 (75 Factor, up to 10 years before NRA)	
	Cost (with solvency funding)	Cost (without solvency funding)
Total (Member and Employer)	7.80% for 1st 5 yrs; 1.75% for next 10 yrs; 0.80% thereafter	1.75% for 1st 15 yrs; 0.80% thereafter
Member 50% share	3.90% for 1st 5 yrs; 0.88% for next 10 yrs; 0.40% thereafter	0.88% for 1st 15 yrs; 0.40% thereafter

# Example 1 – NRA 60 (cont.)

- Initial annual dollar contributions by NRA60 member in example (very approximate):

Annual Earnings \$69,500	Initial annual member contributions		Percentage increase in initial annual member contributions
	Primary Pension Plan	Supplemental Plan Item 4 (75 Factor, up to 10 years before NRA)	
<b>With Solvency Funding</b>	\$6,290 • 7.9% of earnings up to YMPE • 10.7% of earnings above YMPE	\$2,720 • Average of 3.9% of earnings	+43%
<b>Without Solvency Funding</b>	\$6,290 • 7.9% of earnings up to YMPE • 10.7% of earnings above YMPE	\$620 • Average of 0.88% of earnings	+10%

## Example 2 – NRA 65

- Profile of a typical NRA 65 member:

Average age:	45
Average credited service:	10 years
Average pensionable earnings:	\$47,100

- Benefit offering:
  - Item 6 (30 and Out, no age limit)

## Example 2 – NRA 65 (cont.)

Potential annual cost structure as % of pay:

	Item 6 (30 and Out, no age limit)	
	Cost (with solvency funding)	Cost (without solvency funding)
Total (Member and Employer)	<b>2.85% for 1st 5 yrs; 1.20% for next 10 yrs; 0.45% thereafter</b>	<b>1.20% for 1st 15 yrs; 0.45% thereafter</b>
Member 50% share	<b>1.43% for 1st 5 yrs; 0.60% for next 10 yrs; 0.23% thereafter</b>	<b>0.60% for 1st 15 yrs; 0.23% thereafter</b>

## Example 2 – NRA 65 (cont.)

- Initial annual dollar contributions by NRA65 member in example (very approximate):

Annual Earnings \$47,100	Initial annual member contributions		Percentage increase in initial annual member contributions
	Primary Pension Plan	Supplemental Plan Item 6 (30 and Out, no age limit)	
<b>With Solvency Funding</b>	\$3,250 • 6.5% of earnings up to YMPE • 9.6% of earnings above YMPE	\$680 • Average of 1.43% of earnings	+21%
<b>Without Solvency Funding</b>	\$3,250 • 6.5% of earnings up to YMPE • 9.6% of earnings above YMPE	\$290 • Average of 0.6% of earnings	+9%

## Example 3 – Hypothetical Employer

- Consider hypothetical employer with 1,000 employees subscribing to Supplemental Plans for both NRA 60 and NRA 65 members

	NRA 60	NRA 65	Total
<b>Headcount</b>	260	740	1,000
<b>Employee Profile</b>	Average of entire OMERS NRA 60 membership	Average of entire OMERS NRA 65 membership	n/a
<b>Est. Annual Payroll</b>	\$18.1 million	\$34.9 million	\$53.0 million
<b>Supplemental Plan Benefits</b>	Item 4 (75 Factor, up to 10 years before NRA)	Item 6 (30 and Out, no age limit)	n/a



## Example 3 – Hypothetical Employer (cont.)

- Hypothetical annual employer Supplemental Plan cost for benefits selected – matched by members:

	NRA 60	NRA 65	Total
<b>Employer Cost (with solvency funding)</b>			
<b>Expressed as % of pay</b>	3.90% for 1st 5 yrs; 0.88% for next 10 yrs; 0.40% thereafter	1.43% for 1st 5 yrs; 0.60% for next 10 yrs; 0.23% thereafter	n/a
<b>Initial annual cost</b>	[3.90% x \$18.1 million] \$0.71 million	[1.43% x \$34.9 million] \$0.50 million	\$1.21 million
<b>Employer Cost (without solvency funding)</b>			
<b>Expressed as % of pay</b>	0.88% for 1st 15 yrs; 0.40% thereafter	0.60% for 1st 15 yrs; 0.23% thereafter	n/a
<b>Initial annual cost</b>	[0.88% x \$18.1 million] \$0.16 million	[0.60% x \$34.9 million] \$0.21 million	\$0.37 million

## Example 3 – Hypothetical Employer (cont.)

- Initial annual dollar contributions by hypothetical employer in example (very approximate) – matched by members:

	NRA 60	NRA 65	Total
<b>Primary Pension Plan</b>	<b>\$1.64 million</b> <ul style="list-style-type: none"> <li>• 7.9% of earnings up to YMPE</li> <li>• 10.7% of earnings above YMPE</li> </ul>	<b>\$2.40 million</b> <ul style="list-style-type: none"> <li>• 6.5% of earnings up to YMPE</li> <li>• 9.6% of earnings above YMPE</li> </ul>	<b>\$4.04 million</b>
<b>Supplemental Plans (With Solvency Funding)</b>	<b>\$0.71 million</b> <ul style="list-style-type: none"> <li>• Average of 3.90% of earnings</li> </ul>	<b>\$0.50 million</b> <ul style="list-style-type: none"> <li>• Average of 1.43% of earnings</li> </ul>	<b>\$1.21 million</b>
<b>Supplemental Plans (Without Solvency Funding)</b>	<b>\$0.16 million</b> <ul style="list-style-type: none"> <li>• Average of 0.88% of earnings</li> </ul>	<b>\$0.21 million</b> <ul style="list-style-type: none"> <li>• Average of 0.6% of earnings</li> </ul>	<b>\$0.37 million</b>
<b>Total (With Solvency Funding)</b>	<b>\$2.35 million</b>	<b>\$2.95 million</b>	<b>\$5.25 million</b>
<b>Total (Without Solvency Funding)</b>	<b>\$1.80 million</b>	<b>\$2.61 million</b>	<b>\$4.41 million</b>

## Recap

- Supplemental Plans provide flexibility in benefit arrangements through bargaining at local level
- Benefits provided through Supplemental Plans intended to complement benefits provided in Primary Pension Plan
- Other vehicles do not provide same level of flexibility to tailor benefits

## Recap (cont.)

- Costs associated with respective benefit improvements broken down into past and future service costs, solvency costs and rebound costs – some benefit improvements cheaper than others
- Costing information provided as rough order of magnitude reference – they are generic, preliminary, non-employer specific
- As Supplemental Plans are developed, many factors will evolve to cause costing information to change

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