OMERS Sponsors Corporation

2018 Report to Sponsors

About OMERS

The interests of OMERS members, employers, sponsors and other stakeholders are represented by two corporations with separate and distinct mandates:

OMERS Sponsors Corporation (SC) provides strategic and risk oversight – as well as decision-making with regard to designing pension benefits, setting contribution levels, and determining the composition of the two OMERS Boards.

OMERS Administration Corporation (OAC) provides strategic, risk and operational management in serving Plan members and employers, collecting contributions and paying pensions, and investing the Plan funds.

This bicameral (two-part) structure provides for the effective operation of OMERS as a whole. Specifically, it helps to ensure broad input into decision-making by considering the interests of a large number of stakeholders – with focused expertise in key areas, including Plan design, member and employer service, and investments.

The two corporations and their Boards work together, closely and collaboratively, to meet a singular goal: the delivery of secure, sustainable and affordable pension benefits that address the needs of both members and employers.

The OMERS Pension Plans comprise the OMERS Primary Pension Plan, the Retirement Compensation Arrangement (RCA) for the OMERS Primary Pension Plan, and the Supplemental Pension Plan for Police, Firefighters and Paramedics. When we refer to the "OMERS Plan" or the "Plan" in our communications, it is the OMERS Primary Pension Plan that we are typically referring to, unless otherwise specified.

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Year at a glance

2018 was a busy and productive year at OMERS Sponsors Corporation (SC). Based on direct input from sponsors and other stakeholders, the SC undertook the first fully comprehensive review of the Plan in over 50 years of its history. The goal was to fully assess the Plan's financial health in light of the realities we face – and to consider potential Plan changes. It's all about ensuring that the Plan remains relevant for all stakeholders, including members, for generations to come.

The Comprehensive Plan Review (CPR) resulted in two changes that will enhance the fairness in the Plan. It also laid a strong foundation for ongoing analysis – and gave us an opportunity to enhance our communication and education efforts with key groups. As an extension of the CPR, the SC:

- Revamped the SC website, which attracted 392,000 page views and over 100,000 new users.
- Launched an SC Facebook page to help build our online presence and provide an additional channel for communication and engagement.
- Directly engaged with sponsors, key stakeholders and other constituents to focus on key realities facing the Plan through 40 in-person meetings, including six sponsor and stakeholder forums.
- Expanded our reach by hosting online employer, union, and member-specific webcasts attended by over 1,500 people.

We are pleased with the efforts and outcomes that were achieved, but recognize that the Plan review remains a work in progress. We look forward to continuing the dialogue, assessing the challenges we face, and exploring opportunities to cement OMERS position as a leading defined benefit plan in Canada (and beyond).





2018 Highlights

96%
Funded

2.3%
Net Rate of Return

$97 Billion
in Net Assets

496,000
Members

$4.2 Billion
in Contributions

$4.3 Billion
in Pension Payments

39
Participating Unions and Associations

1,000
Employers

A focus on governance best practices

As one of Canada's largest defined benefit pension plans, OMERS has a substantial mandate to manage more than $97 billion dollars on behalf of more than 496,000 active and retired members. The ability to deliver on this essential obligation depends largely on the quality of OMERS governance structure and the individual Directors responsible for providing vital oversight and support.

As a fundamental part of its mandate under the OMERS Act, 2006, the SC is solely responsible for setting compensation levels and appointment protocols for both the SC and OAC Boards. It is an essential task that we take seriously.

OAC appointments

Working closely with the Sponsors and George Cooke, the Independent Board Chair of OAC, the SC is keenly focused on appointing individuals who will produce a high-functioning Board – that is, a Board that has the attributes and competencies required to oversee an organization of the size and complexity of OAC.

Enhanced policies and practices developed in 2017 were adopted fully in 2018. These policies and practices help clarify and streamline the nomination process and support the decision-making of individual sponsors. We will continue to monitor these policies and practices regularly, and update them as appropriate to ensure effectiveness. We are, as always, committed to continuous improvement – and meeting the needs of our sponsors, stakeholders, unions, employers, and members.

In 2018, the SC Board approved the reappointment of four incumbent Directors to three-year terms, beginning January 1, 2019:

OAC Board Directors	Organizations	OAC Committees
David Beatty	City of Toronto	• Human Resources • Investment
Darcie Beggs	Canadian Union of Public Employees (CUPE)	• Appeals • Governance • Human Resources • Risk Oversight
Michael Fenn	Association of Municipalities of Ontario (AMO)	• Governance • Technology (Chair)
David Tsubouchi	Retirees	• Appeals (Chair) • Governance • Human Resources

These reappointments reflect the quality of the individuals and the commitment they have delivered over the past three years. They also help to ensure continuity and the retention of essential skills.

SC Board updates

The SC Board also saw a number of important changes in 2018:

- **New appointments** – Jason Chan was appointed by CUPE Local 79 to replace Tim Maguire, effective April 2018. Jason is a member of the Audit, Human Resources & Compensation, and Plan Design Committees. Jennifer Richards was appointed by OPSEU to join the Board, effective January 1, 2019. Jennifer is a member of the Audit, Plan Design and Risk Oversight Committees.
- **Retirement** – The SC also bid goodbye to Board Director Diana Clarke, recently retired from OPSEU. Newly appointed Jennifer Richards replaces Diana as OPSEU's representative on the Board.
- **New Co-Chair** – Marianne Love (AMO), who served as Co-Chair since the inception of the SC, reached the maximum term limit as Co-Chair and was subsequently replaced by Barry Brown (AMO). We thank Marianne for her leadership and welcome Barry who will work alongside Frank Ramagnano as Co-Chair of the Board.

The Board also approved the reappointment of four incumbent Directors to three-year terms, beginning January 1, 2019:

SC Board Directors	Organizations	SC Committees
Barry Brown (Co-Chair)	Association of Municipalities of Ontario (AMO)	• Audit • Corporate Governance • Human Resources & Compensation • Plan Design • Risk Oversight
Charlie Macaluso	Electricity Distributors Association (EDA)	• Plan Design
Mary McConville	Ontario Association of Children's Aid Societies (OACAS)	• Corporate Governance • Human Resources & Compensation • Plan Design
Sandra Sahli	Ontario Secondary School Teachers' Federation (OSSTF)	• Corporate Governance (Chair) • Plan Design • Risk Oversight

For a full list of the SC Board Directors, see page 14.

Leading informed change through the Funding Management Strategy (FMS)

Managing a pension plan – especially one of our size – is no easy task. The Plan is meant to provide retirement income for present and future retirees across many generations. That means looking far ahead into the future and taking note of issues that are evolving over time – including changing member needs, economic realities, regulatory and legislative updates, and evolving social and workplace trends.

One of the key responsibilities of the SC is to decide when it's appropriate to change benefits, adjust contribution rates, or some combination of both. Recognizing that the decisions made at the SC Board table can impact hundreds of thousands of Ontario residents across generations, any potential Plan changes are carefully analyzed. The adoption of new contribution and/or benefit levels is informed by a formal Funding Management Strategy (FMS) – and governed by a disciplined, annual Plan Change Process that gives due consideration to differing viewpoints and interests.

The FMS provides principles and guidelines that inform how the SC Board manages the Plan based on its financial health (funded status). Specifically, the FMS outlines how benefits and contributions will be modified as the Plan cycles through periods of funding deficit and surplus.

It's about anticipating trends and providing sustainable pensions – across generations – based on conservative assumptions about future events. Put another way, it's about preserving the Plan over the next 20, 50 and even 100 years, without favouring one generation over another.

During the CPR, the Board contemplated updating the current FMS to align with the proposed Plan changes – in particular, the introduction of conditional indexing.

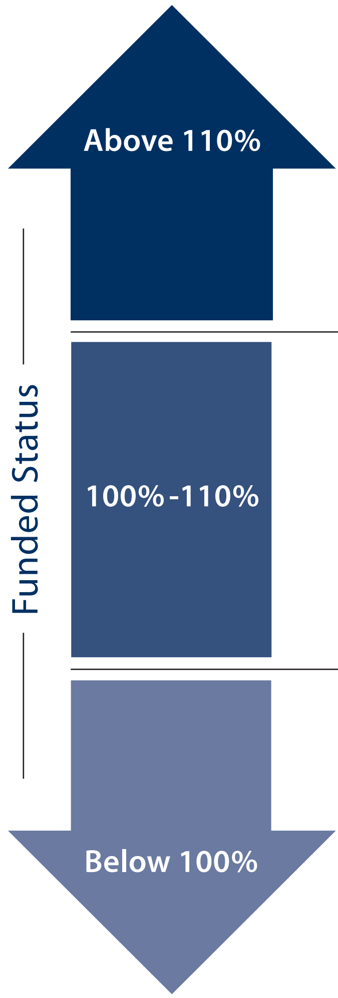
While no changes have been made to the FMS, the Board will continue to monitor the effectiveness of the current FMS to ensure it continues to help guide decisions about managing the financial health of the Plan.

Under the current FMS, the Plan remains in the Deficit Management Zone, which means that the Plan's funded ratio is less than 100%. Within this zone, the primary focus is to return the Plan to full funding, typically through managing contributions, benefits, or some combination of the two.

The financial health of the OMERS Plan continues to improve in the short term. While there may be some bumps along the way, the Plan is projected to be fully funded by 2025 on a smoothed basis*. Given this improvement, the SC elected not to impose changes under the terms of the FMS. As a result, contribution rates were unchanged in 2018 and will remain unchanged in 2019. The current average contribution rate paid by members is 10.7%, which is matched equally by employers.

** The smoothed value of assets is used for regulatory funding valuation reporting. Smoothing of assets buffers the pension plan from having to make sudden drastic changes to contribution rates or benefits because of significant investment gains or losses in any one year.*

Our Current FMS



Surplus Management:

- Maintain the funded status at or above 110%
- Consider benefit enhancements/lower contributions

Reserve Management:

- Enhance the funded position to 110%
- Use reserve to mitigate undesirable events
- Restore benefits and stabilize contribution rates

Deficit Management:

- Return the Plan to a fully funded position
- Benefit reductions or contribution increases, if necessary

The FMS provides principles and guidelines that inform how the SC Board manages the Plan based on its financial health (funded status). Specifically, the FMS outlines how benefits and contributions will be modified as the Plan cycles through periods of funding deficit and surplus.

Reflecting on the Comprehensive Plan Review

Last year, the SC continued with the CPR, which began in 2017 to look at the health of the Plan over the long term. The overriding goal was to ensure – in light of longer-term challenges – that the Plan remains sustainable, meaningful and affordable for both members and employers for generations to come.

The review involved a rigorous assessment of risk factors, which allowed the Board to model and prioritize potential Plan changes. Using sophisticated software applications, the Board worked with independent actuarial advisers to model a wide range of permutations and combinations in real time. This modelling allowed the Board to test the potential impact that various Plan changes could have on the Plan over time – and under a range of scenarios. Several options and risk-mitigation strategies were considered, including:

- replacing guaranteed inflation indexing with conditional indexing for future service;
- updating the criteria for early retirement subsidies;
- integrating the pension formula with the new Year's Additional Maximum Pensionable Earnings (YAMPE), introduced as part of the enhanced Canada Pension Plan (CPP), effective January 2019;
- making participation for non-full-time employees mandatory, with possible opt-out;
- eliminating the current 35-year cap for credited service;
- allowing paramedics to negotiate normal retirement age 60 (NRA 60) participation in the Plan.

The SC reached out to sponsors, unions, employers and members to establish a meaningful dialogue and collect important feedback to help the SC Board Directors as they considered potential Plan changes.

After careful analysis, extensive financial modelling and direct feedback from sponsors and stakeholders, the Board voted in favour of the following Plan changes, effective January 1, 2021:

- eliminating the current 35-year cap for credited service; and
- allowing paramedics to negotiate NRA 60 participation in the Plan.

These two changes received the required two-thirds majority vote of approval required for them to be adopted. They are an important step that will address issues of fairness and equity within the Plan. Details about these changes are found on page 12 (see "Upcoming Plan changes").

As a next step, the Board will leverage the considerable work done through the CPR to continue its efforts to revisit potential risk-mitigation strategies that will enhance the Plan's long-term financial health, and further analyze the broad range of challenges ahead. The data and input collected through the review will equip the SC Board to continue in its efforts to address these challenges.

Key guiding principles

To help ensure that risks, rewards and responsibilities are managed appropriately, the Board had adopted the following five key principles to guide the CPR:

1. Secure	Remain a defined benefit model that provides a predictable, formula-based benefit
2. Relevant	Deliver benefits that are valued by Plan members
3. Affordable	Set employer and member contributions at a level that is affordable to Plan members and employers
4. Equitable	All members should receive the same benefits under the same conditions
5. Simple	The Plan design should enhance member understanding and appreciation of the Plan.

Upcoming Plan changes

At the end of 2018, the Board approved two changes as a result of the CPR. These changes are an important step that will address issues of fairness and equity within the Plan. Both changes will come into effect on January 1, 2021, and are summarized below.

Elimination of credited service cap

This approved change removes the 35-year cap on credited service for members with less than 35 years of credited service prior to January 1, 2021. Their contributions would continue and their employers would match those contributions.

Members who are retired or deferred prior to the effective date are not impacted by the change. If a member meets the 35-year cap before January 1, 2021, the limit will continue to apply.

Removing the service cap helps address the needs of long-service members who want to work beyond the 35-year service limit and continue to earn additional credited service. By earning more credited service under the Plan, members will increase their lifetime pensions.

NRA 60 for paramedics

The Board also approved the change to provide the option for paramedics to have a normal retirement age of 60 (NRA 60), subject to negotiation, starting on January 1, 2021. Paramedics will not automatically be eligible for NRA 60 benefits. As of January 1, 2021, an OMERS employer can elect to provide NRA 60 benefits to all or a class of paramedics. For unionized employees, NRA 60 benefits are subject to negotiation between employers and unions.

Allowing paramedics to negotiate NRA 60 benefits brings them in line with police and firefighters. Moving from NRA 65 to NRA 60 means being eligible for more generous early retirement provisions from the Plan, while paying higher contributions (with matching higher employer contributions).

For more detailed information on these changes, please refer to "Plan Change Announcements" on the omers.com website.

Looking ahead

Following a productive year with the CPR, there is still more work to be done. While the adopted changes help address issues of fairness and equity within the Plan, it's critical that the SC continue its focus on the key risks and challenges facing the Plan – and potential long-term solutions.

It's an exciting time ahead as we continue with the important work we have started. It's all about ensuring that the OMERS Plan remains sustainable, meaningful and affordable for generations to come.

Five key challenges facing the Plan

OMERS continues to face some very real, longer-term risks and challenges that will impact the Plan's long-term sustainability, including:

- A steadily maturing plan
- Longer life expectancy
- An increasingly uncertain economic environment
- Changing demographic and workplace trends
- Recent regulatory and legislative developments, including Canada Pension Plan (CPP) enhancements.

For a full description of each of these key challenges, see "A Work in Progress" on page 2 of *OMERS in a changing world* (Sightlines 1).

Sponsors Corporation Board Directors


Board Co-Chair

Barry Brown


Board Co-Chair

Frank Ramagnano

Marianne Love
Board Co-Chair to December 2018

Dan Axford

Paul Bailey

Fredrick Biro

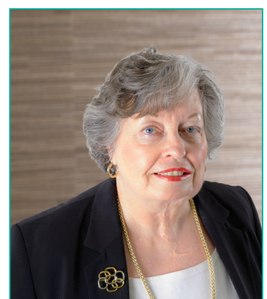
Jason Chan
From April 2018

Diana Clarke
Until December 2018

Peter Derochie

Charlie Macaluso

Tim Maguire
Until March 2018



Mary McConville

Joe Pennachetti

Jennifer Richards
From January 2019

Sandra Sahli

John Weatherup

OMERS Annual Meeting

Thursday, April 18, 2019
9 a.m. – 11 a.m. EST (light breakfast at 8:30 a.m.)

Metro Toronto Convention Centre
South Building, Room 718
222 Bremner Boulevard, Toronto, ON

Public parking available

Register for video webcast
Visit omers.com
or omerssc.com

OMERS Sponsors Corporation

Contact Us

Please send feedback about this *Report to Sponsors* or general comments to:
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Chief Executive Officer

Chris Vanden Haak
Vice President, Pension Governance & Strategy