OMERS SC Primary Plan Funding Management Statement

SC CEO

Effective
June 25, 2024

SUMMARY

This Funding Management Statement (or Statement) provides policy direction to the SC Board when it considers changes to contribution rates and/or benefit provisions (Plan Design Decisions) in respect of the OMERS Primary Pension Plan.

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 2029
Frequency of review:	Every 5 years

Introduction

OMERS provides a seamless pension promise that is funded through the Primary Plan and the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (RCA).

Policy direction to the SC Board in the setting of contribution rates for the seamless pension is provided through this Primary Plan Funding Management Statement, the Contribution Rate Policy and the RCA Funding Mechanism Policy.

This Primary Plan Funding Management Statement (or Statement) provides policy direction to the SC Board when it considers Plan Design Decisions in respect of the Primary Plan. The overall blended contribution rate[1] is set by the SC Board, considering the policy direction provided by this Statement, and in compliance with legislative requirements. The Contribution Rate Policy provides policy direction to the SC Board in setting detailed contribution rates once the overall blended contribution rate has been determined. Contributions to the Primary Plan are based on member contributory earnings up to the Allocation Threshold (as defined in subsection 1(1) of the Primary Plan), determined under the RCA Funding Mechanism Policy, whereas contributions to the RCA are based on member contributory earnings above the Allocation Threshold, determined under the RCA Funding Mechanism Policy.

Funding Target

SC's principal funding objective is to ensure the continuing health and long-term viability of the Primary Plan.

The funding target for the Primary Plan is to achieve and maintain a going-concern funded ratio of at least 110%

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

measured at a management valuation discount rate, which for purposes of this Statement is the lowest rate of the strategic discount rate range. The strategic discount rate range is approved by the OMERS Administration Corporation (AC) Board, reviewed regularly and may be revised accordingly. For purposes of this Statement, the funding target 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") at the targeted level of 100% of Consumer Price Index (CPI) ("Full SRI").

Mechanisms to Achieve Objectives

This Statement, in combination with By-Law No. 12, provides the structure for the SC Board to systematically review the status of the Primary Plan and consider plan design changes based on the Primary Plan's funding and benefit objectives.

Annually, the SC Board reviews the current funded position, financial projections, risk metrics and other relevant information to assess the health and long-term viability of the Primary Plan. The SC Board will consider changes to benefit design (including inflation adjustments), contribution rates and reserves if doing so would not be expected to adversely affect the long-term viability of the Primary Plan.

To support this annual review process, the AC provides an annual valuation of the Primary Plan ("Regulatory Valuation") to SC by no later than March 1st of each year. The Regulatory Valuation provides the minimum funding requirement pursuant to applicable pension legislation (hereafter referred to as the "Legislated Minimum Funding Rate"). In addition, the AC provides valuation results for the Primary Plan, measuring assets at the lesser of market value and smoothed value, and measuring liabilities based on the management valuation discount rate and including Full SRI ("Management Valuation"). To the extent that the smoothed value of assets is less than the market value of assets and the Regulatory Valuation is prepared based on the management valuation discount rate and includes Full SRI, the Management Valuation is the same as the Regulatory Valuation.

Additional projections, risk metrics and other relevant information are provided to SC as soon as possible thereafter.

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

Funding Management Strategy

The SC Board monitors the Primary Plan's financial health on an ongoing basis relative to the funding target. Decisions related to the Primary Plan's benefits, contributions and reserves will depend on the current and projected funded status and risk profile of the Primary Plan, funding and benefit objectives, and other information that the SC Board deems relevant.

Decisions will be guided by whether the Primary Plan is in a Deficit, Reserve or Surplus funding zone, as discussed below:

i. <u>Deficit</u>: The Primary Plan will be considered to be in the *Deficit funding zone* when:

a. a Management Valuation of the Primary Plan indicates a going-concern funded ratio of less than 100%; and

b. the SC Board has sustainability concerns regarding the Primary Plan.

The primary objective while in the Deficit zone is to build reserves to improve the financial health of the Primary Plan.

Should a Regulatory Valuation that is required to be filed with the regulators show that the Legislated Minimum Funding Rate exceeds the currently established blended contribution rate, then the SC Board will make a decision to adjust a combination of the blended contribution rate and benefits.

Should the SC Board believe that the Primary Plan has significant sustainability concerns, the SC Board may choose to adjust a combination of the blended contribution rate and benefits even if the Legislated Minimum Funding Rate is less than the currently established blended contribution rate.

The SC Board will decide on the balance between the overall impact on contributions and benefits based on a consideration of relevant factors at the time the decision is being made.

To the extent that the SC Board decides to change benefits in combination with contribution increases as noted above, the SC may reduce the amount of indexing provided under SRI below the target level of 100% of CPI for one or more of the subsequent adjustment years, change benefits being accrued for future service, or make other changes which affect past service benefits (subject to legislative restrictions). Such benefit changes may impact the going-concern liabilities and normal cost of the Primary Plan.

In addition, unless there are exceptional circumstances, the blended contribution rate while in the Deficit zone should not be less than the normal cost of the Primary Plan based on the Management Valuation.

ii. Reserve: When the Primary Plan is not in the *Deficit zone* and a Management Valuation indicates a going-concern funded ratio of less than 110%, the Primary Plan is in the *Reserve funding zone*.

The primary objective while in the Reserve zone is to build reserves when experience is positive, and to the extent possible, preserve the financial health of the Primary Plan when experience is negative. Consequently, changes to contribution rates or benefits will generally not be made while in the Reserve zone. The primary exception is that if the SC Board has previously set the SRI to less than Full SRI, the SC Board may choose to restore the SRI to a level up to Full SRI. In addition, under exceptional circumstances, the SC Board may choose to reduce contributions or improve benefits for a temporary period.

Notwithstanding the above, the SC Board will generally not approve any action in the Reserve zone that would reduce the Management Valuation funded status to below 100%.

In addition, unless there are exceptional circumstances, the blended contribution rate while in the Reserve zone should not be less than the normal cost of the Primary Plan based on the Management Valuation.

iii. Surplus: When a Management Valuation indicates a going-concern funded ratio greater than 110%, the Primary Plan is considered to be in the *Surplus funding zone*.

The primary objective while in the Surplus zone is to maintain a sufficient reserve to withstand material shocks, and a secondary objective is to consider contribution reductions and improvements to benefits (including restoration of SRI and/or prior benefit reductions) subject to sufficient reserves being maintained.

- Between 110% and 120% - When the Management Valuation indicates a going-concern funded ratio of between 110% and 120%, the SC Board will consider reversing previous changes made while the Primary Plan was in the Deficit zone, including restoring prior benefit reductions (including any prior invocation of SRI) and reducing contribution rates. As a first priority, pensions subject to SRI will be increased on a prospective basis to the amount they would have been, had SRI been 100% for all adjustment years since the inception of SRI. Following the restoration of SRI, the sequence and composition of such further changes will be at the discretion of the SC Board. Any such measure will be limited in value to ensure the Management Valuation funded ratio is not reduced below 110%. In addition, unless there are exceptional circumstances, the blended contribution rate should not be less than the normal cost of the Primary Plan based on the Management Valuation.
- 120% or more - When the Management Valuation indicates a going-concern funded ratio of at least 120%, and SRI has been fully restored on a prospective basis as described above, the SC Board may consider further benefit and contribution changes. The SC Board may choose to lower the blended contribution rate below the normal cost of the Primary Plan based on the Management Valuation. Any such action will be limited in value and duration, to ensure the Management Valuation funded ratio is not reduced below 120%.

Other Considerations

On an annual basis, the funded status of the Primary Plan is determined and the health and long-term viability of the Primary Plan is evaluated by the SC. As a consequence of this annual review process, the SC Board may elect to file the actuarial report on the Regulatory Valuation more frequently than required by the *Pension Benefits Act* (PBA).

Regardless of which funding zone the Primary Plan is in, the blended contribution rate must be no less than the Legislated Minimum Funding Rate based on the last filed valuation or such higher amount as the SC Board deems prudent, and not more than the maximum funding permitted under the *Income Tax Act* (ITA).

Decisions related to the Primary Plan benefits, contributions or reserves shall include consideration of the sharing of risk (and rewards) by members and employers.

Statement Limitations / Exceptions

Notwithstanding the methodologies provided in this Statement, nothing in this Statement affects the existing terms of 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 Board. All decisions made by the SC Board 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 *Ontario Municipal Employees Retirement System Act, 2006* and any other relevant legislation and regulations.

Statement Review

SC will review and update or confirm this Statement at least once every five years.

Any amendment to, or repeal of, this Statement will require an affirmative two-thirds (2/3) vote of the SC Board Members.

ROLES & RESPONSIBILITIES

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