AMENDMENT AND RESTATEMENT OF

BY-LAW NO. 28

Being an amendment and restatement of By-Law No. 28 enacted on June 23, 2015 by OMERS Sponsors Corporation

pertaining to the Statement of Plan Design Objectives and Strategy for the Retirement Compensation Arrangement for the OMERS Primary Pension Plan

NOW THEREFORE be it enacted as a by-law of the OMERS Sponsors Corporation as follows:

1. The OMERS Sponsors Corporation's Retirement Compensation Arrangement Statement of Plan Design Objectives and Strategy attached hereto as Schedule "A" is hereby amended and approved effective June 23, 2015.
2. Any amendment to, or repeal of, this By-Law or the OMERS Sponsors Corporation's Retirement Compensation Arrangement Statement of Plan Design Objectives and Strategy attached hereto as Schedule "A" will require an affirmative two-thirds (2/3s) vote of the Members of the OMERS Sponsors Corporation.

CERTIFIED by the Co-Chairs of the Corporation to have been validly enacted by a vote of all of the Members of the OMERS Sponsors Corporation at a duly convened meeting of such Members held the 23rd day of June, 2015.

"original signed by"
Marianne Love
Co-Chair

"original signed by"
Brian O'Keefe
Co-Chair

Enacted on May 24, 2012
Amended & Restated on August 23, 2012
Amended & Restated on June 23, 2015

Sponsors Corporation Retirement Compensation Arrangement Statement of Plan Design Objectives and Strategy

Policy Sponsor: OMERS Sponsors Corporation

CONTENTS

1. INTRODUCTION

The OMERS Sponsors Corporation (the "SC") is a corporation established under the OMERS Act 2006 (the "OMERS Act"). As set out in the OMERS Act, and detailed in the Framework Agreement established between the OMERS Administration Corporation ("OAC") and the SC, funding of the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (the "RCA") is a joint responsibility of the OAC and the SC. Specifically, the SC is responsible for making decisions about the design of and the amendments to the RCA (which includes the establishment of the Allocation Threshold as defined under By-Law No. 24-01), setting contribution rates and making decisions on such other issues consistent with the terms of the OMERS Act. The OAC is primarily responsible for asset allocation and investment management of the RCA fund, providing for the actuarial valuation, establishing a funding policy and administering the RCA.

This RCA Statement of Plan Design Objectives and Strategy ("RCA Statement") only addresses one of the funding elements and should be read in conjunction with the following documents established and approved by the Board of OAC:

- RCA Funding Policy, and
- Statement of Investment Policies and Procedures ("SIP&P") of the RCA.

This RCA Statement sets out the methodology for determination by the SC of the contribution rates for members and participating employers, the design of benefits of the RCA and the establishment of the Allocation Threshold. This RCA Statement is not intended to apply to the OMERS Supplemental Plan for Police, Firefighters and Paramedics ("Supplemental Plan") or the OMERS Primary Pension Plan ("Primary Plan"), which are or will be the subject of separate Statements approved by the SC at such time, or times, as considered advisable by the SC.

On November 5, 2009, the SC adopted the following statement of the best interests of the Corporation:

> *"The best interests of the OMERS Sponsors Corporation ("SC") include governance and decision-making practices which support the health and long-term viability of the jointly-sponsored OMERS pension plans, and give due consideration to the interests of the stakeholders and other relevant circumstances*."

The SC recognizes that the development of this RCA Statement and its attendant decision making practices are in the best interests of the SC. Adherence to the methodology enunciated in this RCA Statement will provide stability and assist in focused and expedited decision-making within the timeframes set out by the OMERS Act and the SC By-Laws.

2. DESCRIPTION OF THE RCA[1]

Despite the maximum pension limit imposed by the *Income Tax Act (*ITA),[2] OMERS has and continues to provide pension benefits based on the contributory earnings [3] of its members. Prior to 1992, all pension benefits were provided from the Primary Plan and contributions were calculated based on all contributory earnings as OMERS was not subject to the ITA maximum pension limit. As a result of changes to the ITA, OMERS was required to introduce a maximum limit on the pension that could be payable under the Primary Plan effective January 1, 1992, for service accrued thereafter. At that time, OMERS continued providing a seamless contributory earnings pension plan to all members.

In order to achieve this and to provide pension benefits in excess of the ITA maximum pension limit, a separate trust arrangement called the RCA [4] was established. Under this arrangement, contributions are deducted on contributory earnings. The amount of contributions to the Primary Plan is capped at a defined threshold with the remaining amounts deposited to the RCA. The RCA currently provides the members of the Primary Plan the pension benefits that would have been provided under the Primary Plan but for the provisions of the ITA that impose a maximum limit on pensions that may be provided under a registered pension plan. Every member of the Primary Plan is a member of the RCA.

The RCA is:

- not a registered defined benefit pension plan under the PBA [5] and the ITA;
- an OMERS pension plan as set out in the OMERS Act; and
- funded by equal contributions from members and employers.

Since the RCA is not a registered pension plan, it does not receive the same tax treatment as the Primary Plan. In particular, for every dollar of member and employer contributions and realized investment earnings (including interest and dividends where applicable), one half is required to be deposited into the "Refundable Tax Account". This account is a non-interest bearing account held by the Canada Revenue Agency. The remaining one half of the contributions and investment earnings reside in the RCA fund and are invested in accordance with the SIP&P of the RCA. Hence, the RCA is "tax inefficient" compared to the Primary Plan (which is not subject to any taxation until payout.)

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1 *This document is intended to provide a summary and general overview of the RCA. If there is any discrepancy between this information, the plan text, relevant legislation or SC By-Laws, the plan text, legislation and SC By-Laws will govern.*

2 *The Income Tax Act, and the regulations applicable thereto, all as amended from time to time.*

3 Contributory earnings is defined in the Primary Plan text. The definition has changed over time. Reference should be made to the current definition of contributory earnings in the Primary Plan text.

4 Such an arrangement meets the definition of "retirement compensation arrangement" under the ITA.

5 *The Pension Benefits Act of Ontario, and the regulations applicable thereto, all as amended from time to time.*

The RCA is the Retirement Compensation Arrangement for the OMERS Primary Plan, which is a continuation of the retirement arrangement that was in effect on the day immediately before the Ontario Municipal Employees Retirement System Act was repealed.

The benefit provisions and other terms of the RCA are set out in a stand-alone plan text, as amended by the SC from time to time.

3. FUNDING OBJECTIVES

The primary objective of the SC with respect to the RCA is to ensure the continuing health and long term viability of the arrangement. To meet this objective, the SC considers the appropriate balance between competing funding objectives, particularly with respect to such concepts as equity, sustainability, security of benefits including the pension promise, and affordable cost. The SC also considers, the tax efficiency and size of the obligations of the RCA relative to those of the Primary Plan and any funding flexibility that is available between the two arrangements.

This RCA Statement is intended to provide broad guidelines only and is not intended to cover all decision points required in order to achieve the funding objectives and targets of the RCA.

4. FUNDING TARGET

The PBA outlines the minimum standards for the assessment and funding of registered pension plan obligations, but contains no standards for the assessment and funding of non-registered plans like the RCA. Notwithstanding that no minimum funding target requirement for the RCA is mandated under current legislation, the Funding Target for the RCA shall be to maintain annual contributions such that at any valuation date, the contributions together with the investment earnings can be expected to sustain benefit payments for the following 20 years under the RCA fund based on estimates of the OAC's external actuary. The funding target shall be reviewed and revised as appropriate by the SC from time to time.

5. MECHANISMS TO ACHIEVE OBJECTIVES

Annual Non Specified Change Process Mechanism

Prior to the adoption of By-Law No. 24-01 by the SC, the financial health of the RCA was managed by monitoring the time horizon until the potential depletion of the RCA fund. Under this approach, the projected "depletion date" of the RCA fund was the measure of the RCA funding risk. As estimated by the OAC's external actuary, the projected depletion had always exceeded 20 years.

The SC adopted By-Law No. 24-01 effective September 23, 2011 to inject funding flexibility into the RCA and to attain a balance between tax efficiency and the long term sustainability of the RCA. By-Law No. 24-01 requires that:

- Total contributions received be allocated between the Primary Plan and the RCA based on an "Allocation Threshold" and a target RCA funding horizon of 20 years.

- The Allocation Threshold is the level of earnings above which the related contributions are directed to the RCA and below which contributions are deposited to the Primary Plan.

- The Allocation Threshold is set each year at the level which would result in the assets of the RCA, including projected contributions and investment earnings, being sufficient to meet its obligations until the 20th anniversary of the valuation date and no longer. However, the Allocation Threshold is constrained to fall within 80 per cent to 120 per cent of the "Contribution Threshold" (which is the threshold used to allocate contributions between the Primary Plan and the RCA prior to By-Law No. 24-01).

- The Chief Executive Officer ("CEO") of the SC confirms the Allocation Threshold each year based on the above process and on the analysis performed by the OAC's external actuary.

- Each year, the OAC's external actuary will deliver an opinion by March 31 on the level of the Allocation Threshold for the following year which satisfies the funding target described in Section 4. Within 30 days of the receipt of this information, the CEO of the SC will confirm in writing to the OAC the level of the Allocation Threshold for the applicable year.

The above arrangement achieves funding flexibility between the RCA and the Primary Plan. The SC reviews the funding requirements of the RCA and the Primary Plan annually. Compared to the process prior to By-Law No. 24-01, more contributions are deposited to the Primary Plan and less to the RCA in some years, with the reverse occurring in other years.

Based on estimates provided by the OAC's external actuary at the initial effective date of this RCA Statement (i.e. June 30, 2012), it is unlikely that the Allocation Threshold will fall outside the By-Law No. 24-01 range of 80 percent to 120 percent of the Contribution Threshold.

In the event that the Allocation Threshold for a Designated Year (as the term is defined in By-Law No. 24-01) falls outside the 80 percent to 120 percent corridor (absent the constraint placed by By-Law No. 24-01), the SC will consider, through its annual decision-making process, what further action may be required to achieve the Funding Objectives and the Funding Target.

<u>*Annual Specified Change Process Mechanism*</u>

The annual business cycle for the SC includes protocols for the annual review of the funded status and projected contributions for the RCA in accordance with Touchpoint 7 of the Framework Agreement, and continues with a process for consideration of benefit design and contribution proposals pursuant to By-Law No. 12, enacted November 6, 2008.

Pursuant to Touchpoint 7 of the Framework Agreement, the OAC prepares an annual valuation report of the RCA ("Annual Valuation"). The Annual Valuation is to be delivered to the SC by the OAC by no later than +/- March 1 of each year. In addition, projections and scenario analysis will be provided by March 31 of each year.

By-Law No. 12 of the SC provides a detailed protocol for review and discussion of specified change proposals for OMERS pension plans. A specified change is described as:

- a change in benefits for members of any of the OMERS pension plans;

- a change in the contribution rate for members or participating employers; or
- the establishment of, or a change to, a reserve to stabilize contribution rates.

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

During the deliberations of the various proposals contemplated and mandated by By-Law No.12, the Members of the SC will give due consideration to the multiple competing objectives for the RCA.

This RCA Statement does not affect 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 RCA Statement. All decisions made by the SC with respect to changes to benefits and/or contributions, either resulting from the application of this RCA 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, and the OMERS Act and any other relevant legislation and regulations.

Nothing in this RCA Statement is intended to preclude the SC from amending the terms and conditions of the RCA in accordance with its By-Laws and applicable legislation.

6. MONITORING

The funded status of the RCA is reviewed on an annual basis and potential contribution or benefit changes are also considered annually.

In accordance with Touchpoint 2 of the Framework Agreement, the SC will review and update/confirm this RCA Statement annually.

7. COMMUNICATION

This RCA Statement must be posted on the SC website making it available to members, employers, trade unions, associations and other interested parties to the RCA. Pursuant to the Framework Agreement, the SC will advise the OAC of any updates to this RCA Statement for information.

HISTORY

Effective Date:	August 23, 2012
Last Approved by Board:	May 24, 2012, August 23, 2012, June 23, 2015
Next Review:	1 year

June 23, 2015