

OMERS SC RCA Funding Mechanism Policy



SC CEO



Effective
June 25, 2024

SUMMARY

This RCA Funding Mechanism Policy (or Policy) provides policy direction to the SC Board in determining the allocation of contributions made to OMERS between the OMERS Primary Pension Plan and the Retirement Compensation Arrangement for the OMERS Primary Pension Plan.

Contributions to the OMERS Primary Pension Plan are based on member contributory earnings up to the Allocation Threshold determined under this RCA Funding Mechanism Policy, whereas contributions to the Retirement Compensation Arrangement for the OMERS Primary Pension Plan are based on member contributory earnings above the Allocation Threshold determined under this RCA Funding Mechanism Policy.

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 Policy or where taking the actions proposed by this Policy would be imprudent due to the prevailing circumstances. The SC Board reserves the right to amend this Policy or make decisions which do not follow this Policy, at its sole discretion.

Initial approval date:	June 25, 2024
Next review date:	June 2029
Frequency of review:	Every five years

Introduction

OMERS provides a seamless pension promise that is funded through the OMERS Primary Pension Plan (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 the Funding Management Statement, the Contribution Rate Policy and this RCA Funding Mechanism Policy.

The overall blended contribution rate¹ is set by the SC Board, considering the policy direction provided by the Funding Management 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 this RCA Funding Mechanism Policy, whereas contributions to the RCA are based on member contributory earnings above the Allocation Threshold, determined under this RCA Funding Mechanism Policy.

The SC's primary objective with respect to the RCA is to ensure its continued health and long-term viability, while balancing competing funding objectives, particularly with respect to such concepts as equity, sustainability, security of benefits including the pension promise, and affordable cost. In addition to helping achieve the foregoing, the SC also considers, the tax efficiency and size of the obligations of the RCA relative to those of the Primary Plan and any

¹ The combined total of employer and member contributions expressed as of percentage of contributory earnings.

funding flexibility that is available between the two arrangements.

In support of the same, the SC has established this Policy which sets out the process relating to the determination of the allocation threshold, as defined in subsection 1(1) of the Primary Plan (Allocation Threshold).

Determination of Primary Plan Allocation Threshold

For 2012: The Allocation Threshold shall be equal to the rate of contributory earnings, as defined in subsection 1(1) of the Primary Plan, which, when substituted for pensionable earnings in subsection 16(5) of the Primary Plan, results in a pension amount equal to the limit established in subsection 16(11) of the Primary Plan (Contribution Threshold) for 2012.

For a year after 2012 but before 2025: For purposes of setting the Allocation Threshold for a calendar year (Designated Year) after 2012 but before 2025, the SC's Chief Executive Officer (CEO) shall request the OMERS Administration Corporation's (AC) appointed actuary (Actuary) to deliver, by May 31st of the year prior to the commencement of such Designated Year, an opinion (the Actuary's Opinion) stating the level at which the Allocation Threshold would be set so as to result, in the opinion of the Actuary, in assets in the RCA Fund² depleting on but not prior to the twentieth anniversary of December 31 of the year prior to such Designated Year (Pre-2025 Actuary Designated Threshold).

The Allocation Threshold for a Designated Year after 2012 but before 2025 shall be the Pre-2025 Actuary Designated Threshold for such Designated Year, provided that if the Pre-2025 Actuary Designated Threshold for a Designated Year is higher than 120% of the Contribution Threshold, the Allocation Threshold for that Designated Year shall be 120% of the Contribution Threshold and if the Pre-2025 Actuary Designated Threshold for a Designated Year is less than 80% of the Contribution Threshold, the Allocation Threshold for that Designated Year shall be 80% of the Contribution Threshold.

For a year after 2024: For purposes of setting the Allocation Threshold for a Designated Year after 2024, the Actuary shall deliver, by July 31st of the year prior to the commencement of such Designated Year or such other date as agreed by both the SC and the AC,

the Actuary's Opinion stating the level at which the Allocation Threshold would be set at the highest level such that, in the opinion of the Actuary, the projected assets in the RCA Fund at December 31 of the Designated Year and each December 31 of the 19 years following the Designated Year are no less than four times the benefits plus expenses projected to be paid from the RCA in the subsequent year (the Post-2024 Actuary Designated Threshold).

The Allocation Threshold for a Designated Year after 2024 shall be the Post-2024 Actuary Designated Threshold for such Designated Year.

Confirmation of Allocation Threshold

Within 30 days of receipt of the Actuary's Opinion, the SC CEO shall confirm in writing to the AC, the Allocation Threshold as set in accordance with this Policy and upon receipt of such confirmation by the AC, the Allocation Threshold specified in such confirmation shall be deemed for all purposes hereof and the Primary Plan to be the Allocation Threshold for the Designated Year in question.

Policy Limitations / Exceptions

Notwithstanding the methodologies provided in this Policy, nothing in this Policy affects the existing terms of the OMERS pension plans.

No changes to benefits and/or contributions result solely from application of this Policy. 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 Policy or otherwise, must be enacted in accordance with SC By-Laws, and must otherwise comply with the requirements set out under the *Income Tax Act* (ITA), the *Ontario Municipal Employees Retirement System Act, 2006* and any other relevant legislation and regulations.

Policy Review

The SC Board will review and update or confirm this Policy at least once every five years.

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

² "RCA Fund" means the fund for the payment of RCA benefits which, for greater certainty and in accordance with section 7 of the RCA text includes the right to claim any Refundable Tax as such term is used in Part XI.3 of the *Income Tax Act* (Canada).

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 Design, Strategy & Risk, OMERS Sponsors Corporation	Responsible for the design and operational effectiveness of the day-to-day administration of the Policy
Policy Monitor	Executive Director, Plan Design, Strategy & Risk, OMERS Sponsors Corporation	Responsible for the monitoring, compliance, and reporting functions of the Policy