Supplemental Plan

Stakeholder Meeting

June 28, 2007

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Agenda

- General Design
  - Governance Structure: New OMERS Act
  - Supplemental Plan: Introduction/Key Principles
  - Benefits Available/Eligibility
  - Calculation Examples
  - Plan Framework
- Funding & Pricing
  - Overview
  - Actuarial Method for Regulatory Filings
  - Past Service Methodology
  - Setting Contribution Rates
  - Rebound Costs

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Agenda *(cont'd)*

- Other
  - Wind Up
  - Plan-Wide Funding
  - RCA

General Design

Governance Structure: New OMERS Act

Sponsors Corporation (SC)

- Plan design/benefit changes
- Contribution rates

Administration Corporation (AC)

- Plan Administration
- Investment of funds

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Supplemental Plan: Introduction

- AC responsible for initial establishment (design) of Supplemental Plan for members of Police and Fire sectors and Paramedics
- AC must establish and be prepared to administer within 2 years – by July 1, 2008
- SC responsible for future amendments and to establish other Supplemental Plans

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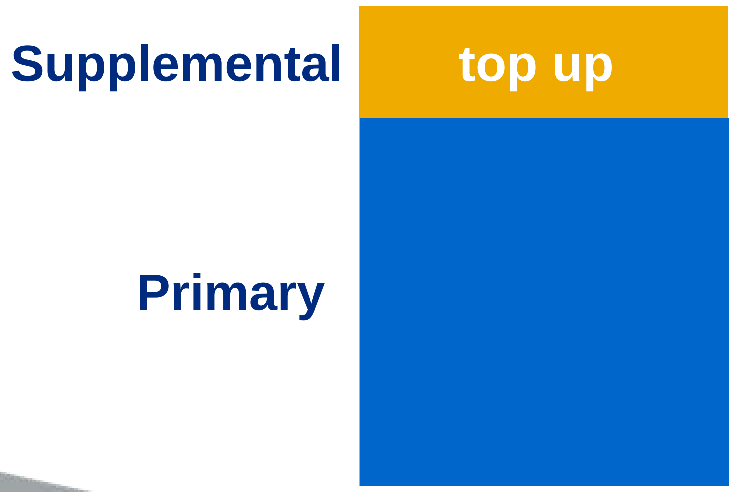
Supplemental Plan: Key Principles

- Stand-alone pension plan separate from Primary Plan
- Benefits not automatic – benefits may be provided by employer e.g. negotiated at a local level for a class or classes of employees
- Acts as "top up" to benefits in Primary Plan



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Supplemental Plan: Key Principles *(cont'd)*

- One supplemental benefit may be established for the class every 36 months
- Benefits would apply to all members in the class – individual member cannot opt out
- Future service cost shared by members and employers (50/50) (i.e. percentage of earnings)
- Primary Plan cannot subsidize Supplemental Plan

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Benefits Available

	Police officers and Firefighters	Paramedics	Police Civilians
2.33 Accrual rate	☑	☑	☒
80 factor	☑	☒	☒
85 Factor	☑	☑	☑
“Best four” earnings	☑	☑	☑
“Best three” earnings	☑	☑	☑

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Benefits Available *(cont'd)*

Benefit Provisions		
	Primary Plan	**Supplemental Plan***
Accrual Rate	2.0%	2.33%
Pensionable Earnings	"Best-five" (Avg. of best-five consecutive years of contributory earnings)	"Best-three" or "Best-four" (Avg. of best-three or best-four consecutive years of contributory earnings)
Early retirement factors** For NRA 60 For NRA 65	 85 Factor 90 Factor	 80 Factor 85 Factor

Note:
NRA = Normal retirement age
Only one benefit at a time
- Additional benefits not more often than every 3 years
* Supplemental Plan pays top-up portion only
** Early retirement is within 10 years of NRA

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Eligibility

- OMERS has 200-plus employers with police/fire/paramedic employees
- More than 40,000 police/fire/paramedic members in OMERS Primary Plan
- Potentially eligible for Supplemental Plan

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Eligibility *(cont'd)*

- OMERS Act defines police according to definition in the *Police Services Act.* Includes civilian members of police force
- Firefighters defined under *Fire Protection and Prevention Act.* Includes firefighters involved in fire suppression, detection, prevention, training…
- Paramedics defined under *Ambulance Act*
- Note: Paramedics have a normal retirement age of 65 in OMERS plan

Supplemental Plan
Example: FAE3 Benefit*

	Primary Plan	**Supplemental Plan**
FAE	2009 2010 2011 2012 2013 FAE5 $50,000	 2011 2012 2013 FAE3 $55,000
Accrual	2%	2%
Credited Service	25	2 (future service only)
Contribution Rate (member and ER)	**N/A (rebound cost)**	**2.2%**
Benefit to Age 65	**$ 25,000**	**$ 200**
Benefit from Age 65	**$ 16,863**	**$ 200**

*Member's Age = 60 (NRA60)
+ YMPE indexed at 2.5% to 2013 (AYMPE estimated $48,220)

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Supplemental Plan
Example: 2.33% Benefit*

	Primary Plan	Supplemental Plan
FAE	2009 2010 2011 2012 2013 FAE5 $50,000	2009 2010 2011 2012 2013 FAE5 $50,000
Accrual	2%	2.33%
Credited Service	25	2 (future service only)
Contribution Rate (member and ER)	**0.4% (rebound cost)**	**5.5%**
Benefit to Age 65	**$ 25,000**	**$ 330**
Benefit from Age 65	**$ 16,863**	**$ 330**

*Member's Age = 60 (NRA60)
+ YMPE indexed at 2.5% to 2013 (AYMPE estimated $48,220)

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Supplemental Plan
Example: Factor 80 Benefit*

	Primary Plan	**Supplemental Plan**
FAE	2009 2010 2011 2012 2013 FAE5 $50,000	2009 2010 2011 2012 2013 FAE5 $50,000
Accrual	2%	2%
Credited Service	25	2 (future service only)
Reduction Factor	.75	0
Contribution Rate (member and ER)	**N/A (rebound cost)**	**1.9%**
Benefit to Age 65	**$ 18,750**	**$ 500**
Benefit From Age 65	**$ 10,613**	**$ 500**

*Member's Age = 55 (NRA60)
+ YMPE indexed at 2.5% to 2013 (AYMPE estimated $48,220)

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Plan Framework

Formula

- Maximum combined benefit accrual (Primary Plan and Supplemental Plan) is 81.55% for 2.33% (achieved when member reaches 35 years credited service X 2.33% accrual rate)
- Stacked benefits
  - Where member covered for more than 1 benefit, combined calculation
    - example: 2.33% x FAE 3 for period where both benefits provided
    - this situation would not occur until at least 36 months had passed
- Same terminology as Primary Plan
  - Contributory earnings
  - Pensionable earnings
  - Credited service

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Plan Framework *(cont'd)*

Key Dates

- Effective date of Agreement not before July 1, 2008 (but can be later)
- If employer provides coverage effective July 1, 2008 (coverage not automatic):
  - Future service from July 1, 2008
  - Initial past service – prior to July 1, 2008
  - Past service different for Agreements effective after July 1, 2008

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Plan Framework *(cont'd)*

Key Dates *(cont'd)*

- Election to purchase past service must be within 24 months of date employer signs Agreement or Coverage Date (whichever is later)
  - Member must be employed by employer who provides coverage (i.e. must be active member)
  - For new members joining class, 24 months is from enrolment date
  - Members will be assumed to purchase – unless member instructs otherwise
- Employers can only provide a benefit every 36 months
  - 36 months from effective date of Agreement and is applied to the class

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Plan Framework *(cont'd)*

Leave Periods – during Supplemental Plan future service coverage periods

- Buying leave period in Primary Plan requires buying in Supplemental Plan
- Not buying leave period in Primary Plan prohibits buying under Supplemental Plan

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Plan Framework *(cont'd)*

Past Service

- Past service cost must be paid by member (i.e. employer contributions not accepted by OMERS directly for purchase of past service)
- Past service may be paid by lump sum or amortized for up to three years
  - Members may elect to amortize over 12, 24 or 36 months
  - Service is credited as monthly payments received
  - Once 3 year amortization expires, any outstanding service can still be purchased. New cost will be established

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Plan Framework *(cont'd)*

Ceasing Coverage

- Supplemental Pension "crystallizes" at date coverage ends
  - Deemed termination of employment for benefit calculation and benefit option purposes once continuous coverage under Supplemental Plan ceases
  - 80/85 Factor only available if member takes immediate early retirement pension i.e. not available if member defers, subsequently takes early retirement
  - Pension under Supplemental Plan may commence on different day than Primary Plan, however, not available if member still accruing service in Primary Plan

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Plan Framework *(cont'd)*

Member Guarantees

- By plan (aggregate) rather than by provision
  - 50% rule guarantee (PBA requirement) for ongoing member future service contributions + interest (C+I)
  - Overall guarantee that "value" of member benefit is at least equal to C+I
    - needed as past service and leave period purchases not included in 50% rule guarantee – exception pregnancy/parental leave (PPL)
  - Same guarantee provisions as Primary Plan

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Plan Framework *(cont'd)*

Other

- Benefits under Supplemental Plan payable under same terms and conditions as Primary Plan to extent possible For example:
  - 66 2/3 survivor/child benefits
  - portability (within the Plan)
  - calculating early retirement reduction based on proximity to best unreduced early retirement factor
  - change in NRA (allowing conversion of service to match NRA in both plans)
  - 100% inflation protection (same as Primary Plan)
  - surplus sharing rules (but by benefit type)
- No RCA

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Funding & Pricing

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Funding & Pricing – Overview

- Framework of Primary Plan should be mirrored to extent possible
- Framework for Supplemental Plan must be reasonable and practical, from perspective of both on-going administration and stakeholder communication
- Framework should facilitate achievement of contributions that are both affordable and have long term stability, as well as facilitating inter-generational equity
- Degree of cross-subsidy between different stakeholder groups should be taken into account without compromising principle of risk-pooling underlying MEPP
- Risk of anti-selection must be considered in all pricing strategies

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Funding & Pricing – Overview *(cont'd)*

- Important to consider sources of volatility of new plan when establishing the framework, including:
  - Asset Mix
  - Predicting impact on early retirement
  - Impact on salary gains and losses (trade-offs)
  - Demographics of actual pools unknown as well as interest in and impact of past service buy backs
  - Uncertain cash flow
  - Small membership vis-à-vis fixed administration costs

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Funding & Pricing – Overview *(cont'd)*

- Important to consider sources of volatility of new plan when establishing the framework, including *(cont'd)*:
  - Large payouts impacting fund and funded ratio
  - Risk of full or partial wind up
  - Risk of large ratio of pensioners to active members (whiplash impact on contribution rates)

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Funding & Pricing – Overview *(cont'd)*

- The following are key components of the Supplemental Plan Funding Framework:
  - Actuarial Method for Regulatory Filings
  - Past Service Methodology
  - Setting Contribution Rates
  - Rebound Costs

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1. Actuarial Method for Regulatory Filings

a) Actuarial Cost Method

Background

- Method used to establish normal cost for future service
- Primary Plan uses “Benefit Allocation/Unit Credit Method” (large size, predictable costs)
- Special nature of Supplemental Plan (optional, fewer members) means less predictable costs and higher sensitivity to shifts in age

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1. Actuarial Method for Regulatory Filings *(cont'd)*

a) Actuarial Cost Method *(cont'd)*

Approach

- Establish future service funding using an aggregate cost allocation method
  - Need for initial conservatism
  - Offers more funding protection against wind up
  - Higher initial cash flow
  - Can support intergenerational equity
  - Once experience gained in Supplemental Plan, matching Primary Plan approach can be revisited

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1. Actuarial Method for Regulatory Filings *(cont'd)*

b) Asset Valuation Method

Background

- A funding and pricing model needs to make assumptions about the asset mix and investment strategy for the Plan
- Underlying investment strategies and asset mix of Primary Plan, initially, expected to be used by Supplemental Plan

Approach

- Utilize an asset valuation method which is same as Primary Plan, at least initially
  - 5-year smoothing technique
  - Effective and commonly used to smooth out short term fluctuations
  - Appropriate to match method if asset mix is matched

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2. Past Service Methodology

a) Past Service Costs

Background

- Normal cost (future service) will reflect aggregate participation in plan
- Past service costs are optional (individually driven)
- Past service costs must be present value (legislative requirement)

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2. Past Service Methodology *(cont'd)*

a) Past Service Costs *(cont'd)*

Approach

- Member pays individual present value cost
  - Individual option not class option
    - reflects legislation
  - Cost directly reflects credit
  - No anti-selection (cost is born by particulars of member)

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3. Setting Contribution Rates

a) Methodology and Structure

Background

- Actuary must call upon a "group" to set prices
- Membership contingent upon local bargaining, growth in numbers may take time
- Pricing (rates) required prior to negotiations
- For pricing, plan can distinguish between provisions (experience and benefit levels)
- Primary Plan does same with NRAs
- Expected that, over time, a covered class may be covered for more than one benefit

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3. Setting Contribution Rates *(cont'd)*

a) Methodology and Structure *(cont'd)*

Approach

- Initial future service contribution rates be based on demographics of all potential members of the Supplemental Plan
  - Stability of rates
  - Facilitates stakeholder negotiations
  - Tested & validated after fact

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3. Setting Contribution Rates *(cont'd)*

a) Methodology and Structure *(cont'd)*

Approach *(cont'd)*

- Number of future service contribution rates be set on benefit provision pools (i.e. a maximum of 8 – 4 per NRA) with same rate above and below YMPE
  - Pricing and experience per provision
  - In keeping with MEPP risk pooling
  - Rates reflect benefits
  - Keeps # of pools small and statistically credible (larger memberships)
  - Provides some stability in rates

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3. Setting Contribution Rates *(cont'd)*

a) Methodology and Structure *(cont'd)*

Approach *(cont'd)*

- Contribution rates for "stacked" optional benefit coverage will be derived by sum of individual rates

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3. Setting Contribution Rates *(cont'd)*

b) Actuarial Assumptions - Overview

Where possible use same assumptions in Supplemental Plan as are used in Primary Plan

- Many economic assumptions impact Supplemental and Primary Plan equally (inflation, increase in YMPE and max. benefit limit, interest on member contributions, lump sum CV rules/factors.)
- Initially salary scale will be same. Possible that trade-off for salary (e.g. for 2.33% accrual) occurs. Wait for experience to demonstrate link
- Some exceptions to using same assumptions required

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3. Setting Contribution Rates *(cont'd)*

b) Actuarial Assumptions – Discount rate

Background

- During initial years, smaller participation and optional nature of benefits make plan subject to greater volatility
- Protective measures to manage volatility include using actuarial assumptions with greater degree of conservatism (at least until fund stabilizes)

3. Setting Contribution Rates *(cont'd)*

b) Actuarial Assumptions – Discount rate *(cont'd)*

Approach

- Set discount rate, at least initially, that is more conservative than that used in Primary Plan – 3.75% vs. 4.25%
  - Emphasis on financial prudence
  - More costly but appropriate
  - Buffer allowance for cash flow during initial years
  - Strength of Primary Plan missing

3. Setting Contribution Rates *(cont'd)*

b) Actuarial Assumptions – Operational Expenses

Background

- No administrative expenses can be paid by Primary Plan
- Costs must be borne by Supplemental Plan participants (members and employers)
- Costs must be absorbed by much smaller population (i.e. Supplemental Plan lacks size of Primary Plan that effectively dilutes costs over vast population)

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3. Setting Contribution Rates *(cont'd)*

b) Actuarial Assumptions – Operational Expenses *(cont'd)*

Background *(cont'd)*

- 1,000 active membership scenario adopted for costing purpose
- Loading will be evaluated and, possibly, lowered with membership growth
- Some "fee for service" costs required – at least initially

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3. Setting Contribution Rates *(cont'd)*

b) Actuarial Assumptions – Operational Expenses *(cont'd)*

Approach

- Set loading for administration expenses as level percentage of pay, to be added to all contribution rates at 1.1% (total member & employer)
  - Each member pays same percentage regardless of provision they are in
  - Cost of administration does not vary amongst provisions
  - Some "fee for service" costs required – at least initially

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3. Setting Contribution Rates *(cont'd)*

b) Actuarial Assumptions – Early Retirement

Background

- 2.33% (accelerate retirement) and 80/85 Factor (retirement earlier with less of penalty) expected to influence incidence of early retirement
- For those who purchase past service likelihood of earlier retirement heightened (greater likelihood to take advantage of enhanced provision)
- Experience during surplus management period shows that 80/85 factor windows encouraged early retirement (greater frequency)

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3. Setting Contribution Rates *(cont'd)*

b) Actuarial Assumptions – Early Retirement *(cont'd)*

Approach

- Under 2.33% and 80/85 factor optional benefit set incidence of early retirement higher than Primary Plan
  - Increases initial costs
  - Recognizes purpose of optional benefits
  - Supported statistically

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4. Rebound Costs (Primary Plan)

Background

- Some Supplemental Plan benefits influence (encourage) early retirement behaviour (2.33% & 80/85 factor)
- OMERS Act requires actuary to consider impact on Primary Plan and adjust contribution rates if necessary (i.e. apply rebound costs)
- FAE 3 or 4 not expected to materially influence retirement decisions
- Even though a higher incidence of retirement is assumed for the 80/85 Factor it is still not expected to have a material cost impact on the Primary Plan
- Part of 50% rule refund in Primary Plan
- Subject to review and rate change

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4. Rebound Costs (Primary Plan) *(cont'd)*

Approach

- Apply rebound costs in Primary Plan for only those members who participate in benefits that expect to increase incidence of early retirement
  - 2.33%
  - Add 2 new rates in Primary Plan (4 in total)
  - Complies with OMERS Act, 2006
  - Only payable by members who contribute to Supplemental Plan 2.33 provision

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Supplemental Contribution Rates and Rebound Costs

The new contribution rates (total)
- including operational expenses

Supp. Plan Benefit Provision	NRA 60			NRA 65		
	Supp. Plan Costs	Primary Plan Rebound Costs	Total Costs	Supp. Plan Costs	Primary Plan Rebound Costs	Total Costs
2.33% Accrual	5.5%	0.4%	5.9%	4.7%	0.6%	5.3%
Factor 80/85	1.9%	Negligible	1.9%	1.5%	Negligible	1.5%
FAE 3	2.2%	None	2.2%	1.8%	None	1.8%
FAE 4	1.7%	None	1.7%	1.5%	None	1.5%

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Supplemental Contributions for 1 year: 2.33% Benefit

	Primary Plan	**Supplemental Plan**
Earnings	$ 70,000	$ 70,000
Accrual	2%	2.33%
Contribution Rate	**0.4%**	**5.5%**
Member Cost	**$ 140**	**$ 1,925**
Employer Cost	**$ 140**	**$ 1,925**
Total Supp Cost	**$ 280**	**$ 3,850**

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Other

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5. Other

Wind Up – Overview

- Employer(s) may wish to use Supplemental Plan benefits on temporary basis to manage employment issues
- Layoffs affecting covered classes
- If Supplemental Plan experience proves to be unfavourable, participating employers and members may wish to withdraw
- Government restructuring (divestment of services) may result in groups of employees moving to different employer/pension plan

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5. Other *(cont'd)*

Wind Up – Overview *(cont'd)*

- Insufficient funds may exist to pay for benefits accrued to date of withdrawal (plan in deficit)
- Funding challenge regarding who will pay for shortfall
- Partial wind up liabilities are dependent upon long-term bond yields which are very volatile
- Special characteristics of Supplemental Plan serve to magnify risks and impact

5. Other *(cont'd)*

Wind Up – Overview *(cont'd)*

- Group withdrawals represent source of risk and volatility to long-term stability of Supplemental Plan and Fund
- If a full or partial wind-up is triggered it could result in rather onerous funding implications
- Rules established to minimize employer withdrawal from Supplemental Plan and manage withdrawals where they occur

a) Minimizing Employer Withdrawal – Rules for Voluntary Withdrawal from the SP

Background

- Opting out of Primary Plan occurs on plan level (exception for councillors)
- Structure of Supplemental Plan (multiple classes and coverages) needs to be considered (different from Primary Plan)

Approach

- An employer may terminate coverage for specific benefit for specific class of employees provided 100 per cent of all affected members vote to "opt out" of coverage. In addition, SC consent will be required in all cases

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b) Managing Withdrawals from the SP – Determining Funded Status for Partial Wind Ups

Background

- Participation (and withdrawal) in/from Supplemental Plan occurs on benefit level
- Fund status is effectively sum of funded status (surplus/deficit) of each benefit provision at any point in time

Approach

- In event that partial wind up declared (either voluntarily by AC or by Superintendent), funded status of that particular benefit provision will be used to determine whether surplus or deficit exists for that provision

c) Managing Withdrawals from the SP – Deficits on Partial Wind Up

Background

- Managing shortfalls on partial wind up involves balancing interests of departing membership with ongoing interest of remaining membership
- Permissible and consistent with JSPP rules
- Consistent with pension deal – funds can only pay for affordable benefits
- Intergenerational equity achieved as those who helped create deficit will pay for it with lower benefits

Approach

- If partial wind up declared and deficit exists, calculated on wind up basis, benefits of affected members will be reduced accordingly

Plan-Wide Funding

Background

- The old supplementary benefit program was funded on an employer-level basis
- It is anticipated that Supplemental Plan will be on a wider scale than supplementary benefits program
- One valuation vs. multiple valuations

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Plan-Wide Funding *(cont'd)*

Approach

- The Supplemental Plan will be funded on a Plan-level basis versus employer-level
  - Given unique nature of Supplemental Plan, Plan-level deemed most appropriate
  - Enhanced portability under plan-level approach
  - Less costly to set up under plan-level approach
  - Larger potential size of each pool makes contribution rates easier to establish
  - Fewer contribution rates than employer-level approach
  - Costs will not be as volatile as employer-level approach
  - Risk pooling between employers

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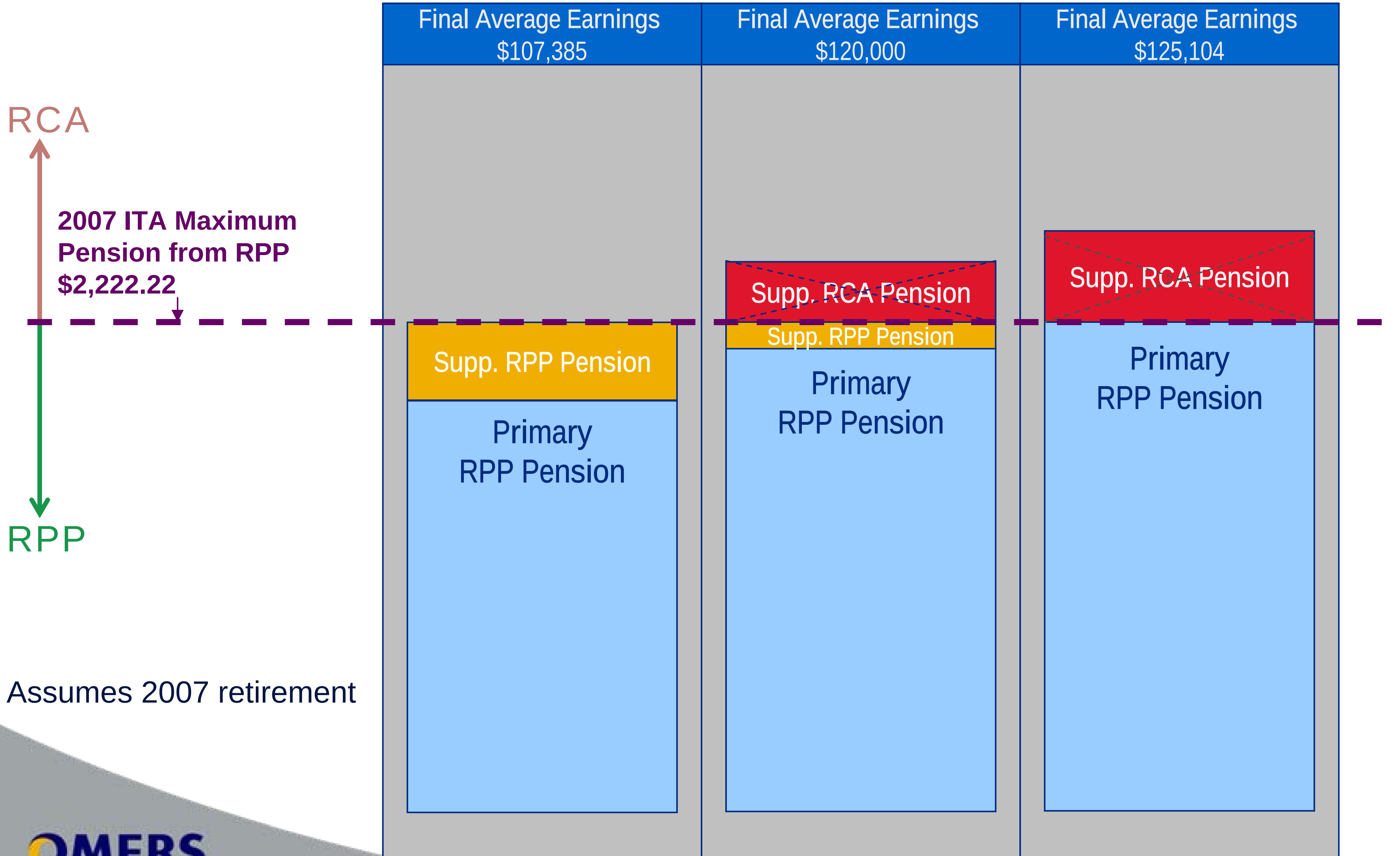
RCA

Background

- ITA imposes maximum pension that can be paid from RPP
- RCA is a vehicle for paying pension over limit
- RCA only applicable to future ongoing service. Under ITA, members limited in ability to purchase past service therefore RCA of limited value, at least initially

2.33 Provision – ITA limit implications for Supplemental Pension

(for 1 year of service and using 2007 ITA Maximum RPP pension figures – the ITA maximum pension figures change annually)



Assumes 2007 retirement

RCA *(cont'd)*

Background *(cont'd)*

- Initial membership in Supplemental Pension Plan anticipated to be small creating greater volatility for costs and potential funding pressures
- Number of affected members relatively small (i.e. likely less than 500)
- As result, stand alone Supplemental Plan RCA should be fully funded
- Costs prohibitively high due to cost of benefits as well as administration loading cost carried by small number of members. Unlikely to appeal to members earning in excess of ITA limits if required to contribute at required levels

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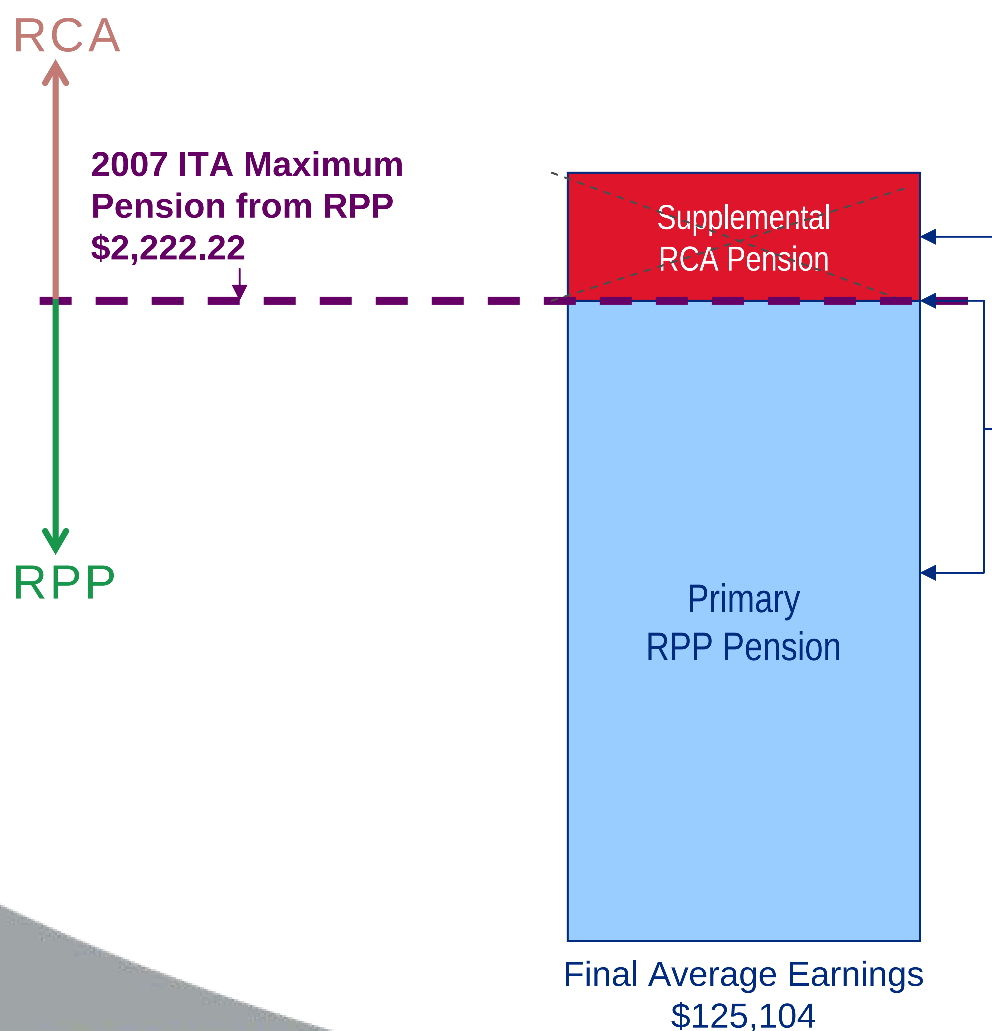
2.33 Provision – RCA example for 1 year of service

(for 1 year of service and using 2007 ITA Maximum RPP pension figures – the ITA maximum pension figures change annually)



If Supplemental RCA provided

Supplemental Annual Pension	Supplemental Member Contributions
$412	$12,510

Primary Plan (RPP + RCA)

Primary Annual Pension	Primary Member Contributions
To age 65 $2,502t Then *From* age 65 $2,222.22	$12,162

Assumptions:

- Retirement in 2007 – one year of service
- NRA 60, pension payable to age 65
- There are only 10 supplemental plan RCA members
- Supplemental RCA contribution rate = approx. 10% which includes admin. loading. There would also be a rebound cost of 0.2% added to the Primary Plan

RCA *(cont'd)*

Approach

- Benefits under Supplemental Pension Plan will be capped at ITA maximum pension limit (i.e. no RCA for Supplemental Pension Plan)
- If annualized earnings in excess of ITA benefit maximum, no contributions paid to Supplemental Pension Plan (including Primary Plans rebound costs)
- Decision to provide Supplemental Plan RCA in future will be responsibility of Sponsors Corporation

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Questions & Thank you

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