

Funding Policy – RCA

STRATEGY & ACTUARIAL



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OVERALL PRINCIPLES

Funding is a joint responsibility of OMERS Administration Corporation (“AC”) and OMERS Sponsors Corporation (“SC”). This Policy sets out funding objectives and identifies risk factors and risk management mechanisms to deliver on the pension promise.

The Policy also sets out the protocols for the preparation of actuarial valuations, any related calculations and projections, the determination of the Allocation Threshold, and selecting and monitoring actuarial assumptions.

This Policy applies to the funding of the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (“RCA”).

Next renewal date:	March 2027
Frequency of review:	3 years

Context

The RCA funding arrangement provides the pension benefits that are set out in the Primary Plan but which are in excess of the Primary Plan’s maximum levels, as imposed by the ITA. Governed by the *OMERS Act, 2006* and the ITA, the RCA is a trust arrangement, separate from the Primary Plan. The RCA is not registered as a pension plan under either the PBA or the ITA.

One half of contributions are required to be deposited into a non-interest-bearing Refundable Tax Account (“RTA”) administered by CRA and the remainder are deposited to the RCA Investment Fund. Concurrent with an annual tax filing, one-half of investment earnings realized in the RCA Investment Fund minus one-half of benefits paid to members out of the RCA Investment Fund is transferred from the RCA Investment Fund to the RTA, or, if benefits exceed earnings, transferred from the RTA to the RCA Investment Fund. The remaining assets in the RCA Investment Fund are invested in accordance with the RCA *Statement of Investment Policies and Procedures* (“RCA SIP&P”).

The RCA is funded by equal member and employer contributions, based on contributory earnings in excess of the Allocation Threshold, and the investment earnings of the RCA Fund. The Allocation Threshold is the level of contributory earnings below which the related contributions are directed to the Primary Plan Fund and above which the related contributions are directed to the RCA Fund.

Funding of the RCA also takes into account:

- AC’s fiduciary responsibilities as administrator of the RCA and trustee of the RCA Fund;
- AC’s investment principles for the RCA as captured in the RCA SIP&P; and
- SC’s *Statement of Plan Design Objectives and Strategy for the Retirement Compensation Arrangement for the OMERS Primary Pension Plan* (“RCA SPDOS”).

Funding Responsibilities

Funding is a joint responsibility of AC and SC.

AC's responsibilities under the *OMERS Act, 2006* include:

- asset allocation and investment management;
- establishing a funding policy;
- appointing the external actuary;
- providing for the actuarial valuation;
- determining the actuarial assumptions and methods based on the recommendations of its external actuary; and
- providing reasonable technical support to SC, including estimates of the impact of any proposed plan changes.

In addition, under the Memorandum of Understanding between AC and SC, which describes the roles of AC and SC in the funding process, AC is responsible for approving the annual actuarial valuation prepared by its external actuary.

SC's responsibilities under the *OMERS Act, 2006* include:

- determining the design for benefits;
- setting contribution rates; and
- establishing or changing a reserve to stabilize contribution rates.

The RCA SPDOS provides the approach for the determination of contribution rates, the design of benefits and the establishment of the Allocation Threshold.

Funding Objectives

SC's principal funding objective, as articulated in its RCA SPDOS, is to ensure the continuing health and long-term viability of the RCA, taking into consideration:

- the appropriate balance between competing funding objectives, particularly with respect to concepts such as equity, sustainability, security of benefits and cost;
- the RCA's tax treatment, including the amounts recorded in the Refundable Tax Account;
- the size of the RCA's obligations relative to those of the Primary Plan; and
- any funding flexibility that is available between the RCA and the Primary Plan.

The RCA is not subject to the minimum funding standards under the PBA. The funding mechanism is set out in RCA SPDOS. The RCA is partially funded, operating on a modified-pay-as-you-go basis. Where appropriate, AC shall provide to SC its views on the funding mechanism.

Funding Risk

Funding risk is the risk that OMERS is not able to deliver sustainable, affordable and meaningful pensions over the long term due to unfavourable investment performance, adverse plan experience, plan maturity and other risks to which OMERS is exposed.

Funding risk results primarily from a prolonged decline in contributions. For example, a significant reduction in the contributions made to the RCA as a result of changes to contribution rates set by SC, and/or a significant decline in active members contributing to the RCA.

As the RCA matures, unfavourable plan experience that leads to higher-than-expected benefit payments could also increase funding risk. Higher-than-expected benefit payments could result from:

- large increases in contributory earnings, particularly late in members' careers;
- large improvements in life expectancy;
- large numbers of terminating members electing a commuted value transfer rather than a deferred pension;
- adverse behaviours by employers and members, such as exercising a plan feature at the expense of all other employers and members; and
- other adverse plan experience different from actuarial assumptions, both in the short and long term.

Other funding risks include investment underperformance, reputational, legislative, regulatory and political uncertainties.

In the event that circumstances indicate that there is a material increase in the risk to the continuing health and long-term viability of the RCA, AC will advise SC of the AC's fiduciary concerns.

Funding Risk Management

Funding risks are monitored and managed through a coordinated process involving a variety of protocols:

- **Actuarial** – regular actuarial analysis provides information about the RCA's projected future cash flows and fund balances under various economic and demographic scenarios.
- **Contribution and Benefit** – contributions and benefit design can be changed to address concerns related to sustainability, affordability and meaningfulness.
- **Investment** – taking into consideration the taxation of the RCA Fund, investment strategies and policies are developed to achieve a return that reflects an acceptable amount of risk.

- **Other** – including monitoring, influencing and responding to the legislative, regulatory and political landscapes.

Contribution and benefit protocols are addressed under RCA SPDOS, while investment protocols are addressed under the RCA SIP&P. The balance of this Policy addresses actuarial protocols.

Actuarial Protocols

Actuarial assessments shall be conducted with the following basic principles:

- compliance with all relevant legislation and professional standards and requirements; and
- long-term viability of the funding objectives shall not be compromised for short-term objectives.

Actuarial assessments comprise primarily the following:

- annual actuarial valuation;
- annual actuarial projections including the determination of the Allocation Threshold;
- periodic review of actuarial assumptions and methods and work performed by AC's external actuary; and
- actuarial analysis of proposed plan changes.

Annual Actuarial Valuation

An actuarial valuation shall be performed as at December 31 each year.

- The actuarial valuation shall be performed on a going concern basis;
- The going concern actuarial valuation shall be performed using the projected unit credit actuarial cost method and the fair value of the RCA Fund;
- Both demographic and economic assumptions used for the going concern actuarial valuation should be set based on relevant emerging experience of the RCA and the Primary Plan (since members of the RCA are also members of the Primary Plan) and should reflect expectations of the broader economic environment. Other than the real discount rate, actuarial assumptions represent best estimates of the most likely outcomes of future events; and
- The methodology to determine the real discount rate assumption should:
 - i. be based on projected long-term passive net investment returns from the external actuary's investment model using the RCA's target strategic asset mix, taking into account the impact of the Refundable Tax Account, where the model's effective date is no more than six months in advance of the valuation date; and
 - ii. include a margin for conservatism to maintain a stable discount rate which in turn promotes a

stable progression of actuarial liabilities from year to year.

Annual Actuarial Projections and determination of the Allocation Threshold

Projections of the RCA's funded status and the determination of the Allocation Threshold shall be prepared annually and should cover the following elements:

- projections of cash flows and fund balances;
- projections should be performed over a time horizon at least 20 years or the relevant period specified in SC By-Laws, recognizing that the reliability of projection results diminish with the length of the projection horizon;
- projections should cover different demographic and economic experience scenarios, including stress testing. The scenarios should be broad enough to cover both favourable and unfavourable experiences, with specific focus on existing and potentially new risk factors that would have material implications to the projected cash flows and fund balance; and
- projections should also cover the impact of any changes in actuarial assumptions during the projection horizon if these assumptions are under stress. Sources of gains and losses from the annual actuarial valuation should be reviewed to identify potential stresses.

Periodic Review of Actuarial Assumptions and Work Performed by AC's External Actuary

Unless an alternate approach is deemed appropriate following a periodic review of assumptions and methods, the same actuarial assumptions used for the annual actuarial valuation for financial reporting purposes will be used for the calculation of the Allocation Threshold.

Since RCA members are also members of the Primary Plan and because the pension benefits under both plans are integrated, the periodic review of actuarial assumptions and independent reviews of the work performed by AC's external actuary should be made in conjunction with any analysis completed for the Primary Plan, as follows:

Actuarial Assumptions and Methods	Minimum Review Frequency
Discount rate assumption	Annually
Long-term inflation assumption	Annually
Other assumptions (e.g., demographic, salary increase, etc.)	Evaluated annually, comprehensive experience study every 5 years
Independent assessment of actuarial assumptions and methods and work performed by the external actuary	Every 10 years

Actuarial Analysis of Proposed Plan Changes

The funding impact of any changes to the RCA, or the impact on the RCA of changes to the Primary Plan, either considered or proposed by SC, shall be analyzed by AC using the actuarial protocols and AC shall submit the results to SC for its consideration.

Responsibilities

The VP, Actuarial Services and Plan Actuary is responsible for:

- providing direction to the oversight of, and to the coordination of the work performed by, AC’s external actuary; and
- preparing actuarial analysis.

The external actuary is responsible for:

- performing the annual actuarial valuation and providing the independent actuarial opinion and certification for funding and financial statement reporting purposes;
- calculation of the Allocation Threshold;
- recommending the actuarial assumptions and methods;
- providing independent cost estimates for plan design changes; and
- conducting special projects such as experience studies.

Exceptions

The Policy Sponsor may grant non-substantive exceptions to this Policy. The reasons for granting an exception shall be recorded in writing and communicated annually to the AC Board.

Responding to Incidents of Non-Compliance

The Policy Manager is accountable for identifying incidents of potential non-compliance under this Policy based on established procedures and reporting such incidents to the Policy Sponsor.

Monitoring and Reporting

The Policy Manager is responsible for administration of the Policy, including implementing procedures to enable compliance, monitoring and reporting, as well as to coordinate training as required.

The Policy will be reviewed before the next renewal date in the event of a material change to any of RCA design, funding objectives, funding risk and actuarial protocols.

ROLES & RESPONSIBILITIES

Policy Approver	AC Board	Responsible for approving the Policy
Policy Sponsor	Chief Financial and Strategy Officer	Ultimately accountable for the Policy, including its development, implementation and administration
Policy Manager and Monitor	VP, Actuarial Services and Plan Actuary	Responsible for the design and operational effectiveness of the day to day administration of the Policy and for the monitoring, compliance and reporting functions of the Policy