Funding **Policy – Primary Plan**

STRATEGY & ACTUARIAL

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Effective
January 1, 2025

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, and selecting and monitoring actuarial assumptions and methods.

This Policy applies to the funding of the OMERS Primary Pension Plan ("Primary Plan").

Next renewal date:	January 2028
Frequency of review:	3 years

Context

The Primary Plan is a multi-employer pension plan governed by the *OMERS Act, 2006*, the *Pension Benefits Act* (Ontario) ("PBA") and the *Income Tax Act* ("ITA"). It is a jointly sponsored pension plan for the purposes of the PBA and a registered pension plan for the purposes of the ITA. The benefit provisions and other terms of the Primary Plan are set out in a stand-alone plan text, as amended from time to time.

The Primary Plan is a contributory defined benefit pension plan. Generally, the participating employers and their employees share equally in the investment experiences of and the contributions to the Primary Plan.

To support the AC's and SC's purpose to deliver a sustainable, affordable and meaningful defined benefit pension plan, the funding principles and protocols for the Primary Plan are captured in:

- This policy;
- AC's *Statement of Investment Policies and Procedures – Primary Plan* ("SIP&P");
- SC's *Funding Management Statement* ("FMS"), *Contribution Rate Policy* ("CRP") and *By-Law No. 20 – Determination of Inflation Adjustment*; and
- OMERS risk appetite.

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 as captured in the SIP&P;
- establishing a funding policy;
- appointing the external actuary;
- providing for the actuarial valuation;

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- 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 Primary Plan changes.

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;
- establishing or changing a reserve to stabilize contribution rates; and
- making decisions about filing actuarial valuation reports more frequently than required under the PBA and regulations thereunder.

SC's FMS provides policy direction on how benefits and contributions could be modified dependent on the financial health of the Primary Plan.

SC's CRP provides policy direction to setting contribution rates between groups with different normal retirement ages and on earnings below and above the Year's Maximum Pensionable Earnings once SC determines the overall blended contribution rate.

SC *By-Law No. 20 – Determination of Inflation Adjustment* sets out the inflation adjustment for the applicable adjustment year in respect of service earned after 2022, referred to as Shared Risk Indexing.

Funding Objectives

OMERS purpose is to deliver a sustainable, affordable and meaningful defined benefit pension plan, which ensures the continuing health and long-term viability of the Primary Plan to fulfill its obligation to pay benefits today and into the future.

- As part of its fiduciary responsibilities as administrator, AC ensures that funding requirements under applicable legislation and the Primary Plan provisions are satisfied.
- As articulated in its FMS, SC takes into consideration the interests of stakeholders and the appropriate balance between competing funding objectives.

Recognizing the long-term nature of the obligations and the fact that the PBA permits AC to exempt the Primary Plan from any requirement to fund solvency deficiencies, benefit security is pursued by funding on a going concern basis.

SC's FMS defines a funding target which may be used by SC to guide decisions about benefits, contributions and reserves.

Plan Design & Funding Risk

Plan Design & Funding risk is the risk that OMERS is not able to deliver sustainable, affordable and meaningful pensions, and results primarily from:

- insufficient investment returns;
- increases in liabilities from unfavourable trends, including:
  - high price and wage inflation;
  - large increases in contributory earnings, particularly if late in members' careers;
  - large improvements in life expectancy; and
  - adverse retirement trends;
- prolonged decline in contributions due to membership disruptions;
- unfavourable changes to the legislative, regulatory, or political environment; and
- other adverse plan experience different from actuarial assumptions, both in the short and long term.

Plan maturity occurs when the membership and liabilities are increasingly attributable to members no longer active or nearing retirement age. As the Primary Plan matures, it becomes more sensitive to these risks due to its diminished ability to recover from an adverse shock.

Plan Design & Funding Risk Management

Plan Design & Funding risk is monitored and managed through the assessment of OMERS risk profile against its risk appetite statements, and a coordinated process involving a variety of protocols:

- **Actuarial** – regular actuarial analysis provides information about the financial position and the minimum legislated funding requirements over various time horizons and 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** – investment strategies and policies are designed to achieve a return that reflects both an acceptable amount of risk as well as a return sufficient to meet the Primary Plan's long-term financial obligations.

- **Other** – these include:
  - when appropriate, the filing of actuarial valuation reports with the regulators more frequently than required under the PBA to achieve contribution and benefit stability during the period covered by the actuarial valuation;
  - the strategic allocation of surplus assets, such as setting reserves; and
  - monitoring, influencing and responding to the legislative, regulatory and political landscapes.

Contribution and benefit protocols, voluntary filings of actuarial reports and the setting of reserves are addressed under SC *By-Law No. 12 – Specified Plan Change Process* and FMS, while investment protocols are addressed under the SIP&P. The balance of this Policy addresses actuarial protocols.

Actuarial Protocols

Actuarial assessments shall be conducted with the following basic principles:

- alignment with OMERS purpose to deliver a sustainable, affordable and meaningful defined benefit pension plan;
- compliance with all relevant legislation and professional standards and requirements; and
- long-term viability of the funding objectives should not be compromised for short-term objectives.

Actuarial assessments comprise primarily the following:

- annual actuarial valuation;
- annual actuarial projections;
- periodic review of actuarial assumptions and methods and work performed by the external actuary;
- actuarial analysis of proposed plan changes; and
- other periodic studies including those pertaining to contribution rate allocation, member equity and asset liability studies.

Annual Actuarial Valuation

An actuarial valuation shall be performed each year as at December 31 on a going concern basis and, if required under the PBA, on a solvency and a wind-up basis:

- The going concern actuarial valuation shall be performed using the projected unit credit actuarial cost method. The net assets should reflect annual investment gains or losses smoothed over a five-year period.
- Both demographic and economic assumptions used for the going concern actuarial valuation should be set based on relevant emerging experience 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 likelihood of future events.
- Discount rate selection will be guided by the principles in AC's discount rate strategy that consider an assessment of projected long-term net investment returns, a margin for adverse events and are informed by OMERS risk appetite. The principles account for the Primary Plan's current and projected financial health and maturity and acknowledge the judgement inherent in discount rate setting.
- The real discount rate shall be determined annually by AC following a consultative process between AC and SC.
- For service earned after 2022, the assumed inflation adjustment will be set in accordance with SC *By-Law No. 20 – Determination of Inflation Adjustment*.

Annual Actuarial Projections

Projections of the financial position, funded ratio, minimum legislated funding requirements and the likelihood of contribution rate increases/benefit reductions shall be prepared annually. These projections should cover the following elements:

- projections of the going concern actuarial valuation results;
- projections should be performed over a time horizon of at least 10 years, recognizing that the reliability of projection results diminish with the length of the projection horizon;
- projections should cover different demographic, membership growth 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 financial position and the likelihood of contribution increases/benefit reductions; 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 Methods and Work Performed by the External Actuary

The actuarial assumptions and methods and work performed by the external actuary should be reviewed periodically as follows:

Actuarial Assumptions and Methods	Minimum Review Frequency
Discount rate assumption	Annually
Long-term inflation assumption	Annually
Discount rate methodology	Every 3 years
Actuarial cost method	Every 5 years
Asset smoothing method	Every 5 years
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 Primary Plan design or contributions, 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.

Other Studies

A contribution rate study will be performed as requested by SC in support of its CRP. Other studies, including Asset Liability Studies, will be performed regularly as needed as part of the protocol to manage Plan Design & Funding risk.

Responsibilities

The Plan Actuary is responsible for:

- providing direction to the oversight of, and to the coordination of work performed by, AC's external actuary;
- preparing the annual actuarial projections;
- ensuring that the actuarial valuation is filed with regulatory authorities, subject to the SC Board direction, but, in any event, no less frequently than once every three years or as necessary to comply with the law; and
- preparing actuarial analysis.

Depending on the activity, other areas of AC may also be responsible for the work.

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;
- recommending the actuarial assumptions and methods;
- providing independent cost estimates for Primary Plan design changes; and
- conducting special projects such as experience studies and contribution rate 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 Primary Plan design, Primary Plan funding objectives, legislation, Plan Design & 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