# Supplemental Plans
# Generic Information

Stakeholder Meeting
September 23, 2005

OMERS

Watson Wyatt Worldwide

## What are Supplemental Plans?

- Stand-alone registered pension plans – separate financially and actuarially from Primary Pension Plan (Basic Plan)
- Choice of benefits to supplement those provided under Primary Pension Plan – total benefits subject to Income Tax Act maximums
- Bill 206 allows for possible setup of one or more Supplemental Plans
  - Police and/or Firefighters
  - Other members



- Basic Plan is to be known as "Primary Pension Plan" per draft Bill 206.
- It is conceived that there will be no cross-subsidies between the Primary Pension Plan and the Supplemental Plans.

## What are Supplemental Plans? (cont.)

- No more than 2 to 3 Supplemental Plans in total, based on preliminary discussions with Canada Revenue Agency
- Additional regulatory compliance, administration and actuarial issues still to be identified, clarified and/or resolved
- Higher operation costs



- Canada Revenue Agency has not given any particular reasons for the limit on the number of Supplemental Plans. It is believed that the limit is specified for practical reasons.
- Higher operation costs expected on a per member basis than the Primary Pension Plan.

## Why Supplemental Plans?

- Supplemental Plans provide flexibility in benefit arrangements through bargaining at local level
- Other vehicles do not provide same level of flexibility to tailor benefits
  - Retirement Compensation Arrangements (RCAs) - not cost effective
  - Supplementary Agreements - funding restrictions imposed by Canada Revenue Agency
  - Primary Pension Plan - inability to bargain pension benefits locally

## Process for Establishing Supplemental Plans

- Authority to establish Supplemental Plans rests with Sponsors Corporation once Bill 206 is passed
- Choices of benefits, or even packages of benefits, under Supplemental Plans can be broad or limited depending on wishes of Sponsors Corporation
- Local bargaining of Supplemental Plan benefit offerings occurs between employers and their various employee groups
- Administration of Supplemental Plans rests with Administration Corporation

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- Complexity (for both communications and operations) increases with the numbers of choices offered under Supplemental Plans.

## Possible Plan Benefits

- Current stipulations under Bill 206
  - Maximum annual accrual of 2% per annum based on highest 5 year average earnings and 0.6% integration with Canada Pension Plan (CPP)
  - 2.33% p.a. accrual for members of public safety occupations permissible but only for future service
  - 50% cost sharing between employers and members
- Other ideas
  - Final 3 year average earnings
  - 2.33% p.a. accrual applying to past service for members of public safety occupations

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- Currently OMERS provides pension benefits based on 2% of final average earnings, and such benefits are reduced by 0.675% of earnings up to the Year's Maximum Pensionable Earnings ("YMPE") at age 65 when CPP benefits become payable. If the 0.675% is reduced, the pension benefits increase after age 65. Under draft Bill 206, the 0.675% cannot be reduced to below 0.6%.

## Possible Plan Benefits *(cont.)*

Primary Pension Plan:

2% p.a. accrual with 0.675% integration with CPP
Early retirement within 10 years before NRA
85/90 Factor for unreduced early retirement
5% p.a. early retirement reduction

Possible Supplemental Plan Benefits:

1. 2.5% p.a. early retirement reduction
2. 80/85 Factor (10 years)
3. 80/85 Factor (15 years)
4. 75/80 Factor (10 years)
5. 75/80 Factor (15 years)
6. 25/30 and Out; No Age Limit
7. 0.6% integration with CPP
8. 2.33% Accrual - Integrated (future service)

**Other Examples:**

9. 2.33% Accrual - Integrated (past & future service)
10. Final 3 year average earnings

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- These are only examples. There are other possible plan benefits that could be offered.
- The Sponsors Corporation will be responsible for how benefits are offered. Benefits can be offered on a stand alone basis; alternatively, multiple benefits can be grouped and offered as a package.
- In the above example, "80/85 Factor" refers to the point when an NRA60/NRA65 member could retire with unreduced pension benefits – "80" means age plus service equals 80 points for an NRA60 member, and "85" means age plus service equals 85 points for an NRA65 member.
- "25/30 and Out" refers to when an NRA60/NRA65 member could retire with unreduced pension benefits regardless of age – "25" means 25 years of service for an NRA60 member, and "30" means 30 years of service for an NRA65 member. If a member does not have the 25 years or 30 years requirement, then early retirement can only take place 10 years prior to NRA.
- The possibility of offering an annual accrual of 2.33% only applies to members of public safety occupations.

# Example of Possible Structure

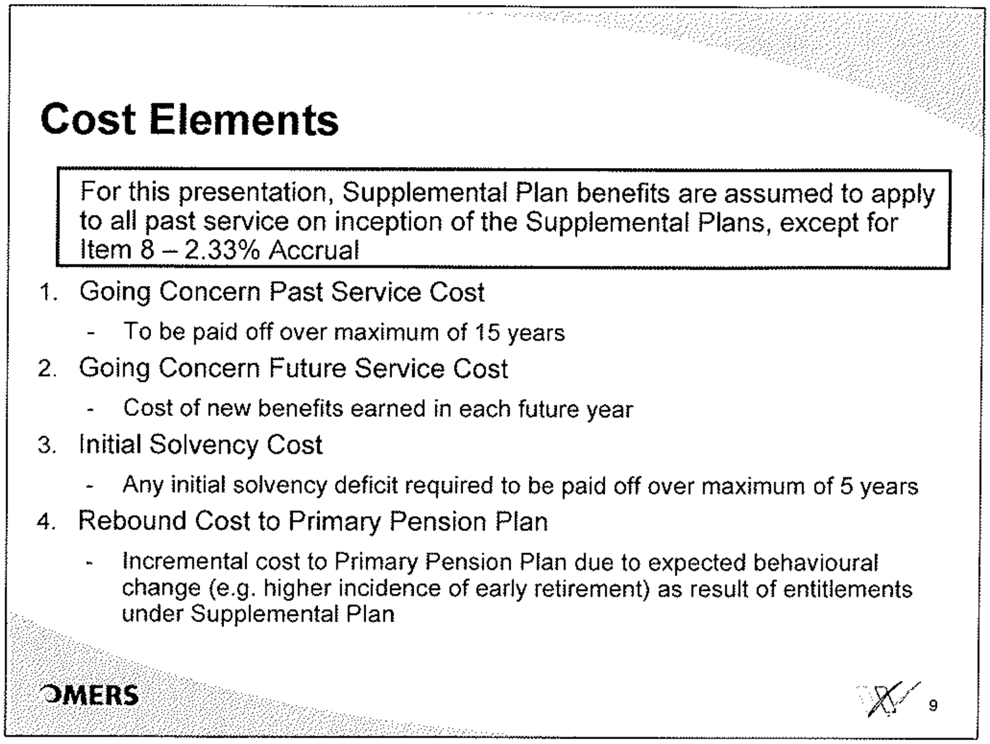
| SUPPLEMENTAL PLAN 1<br>Police/Fire | | | | | | |
|---|---|---|---|---|---|---|
| Employer 1 | | | Employer 2 | | | Others.... |
| Grp A | Grp B | Others... | Grp A | Grp B | Others... | |
| Benefit A | Benefit B | | Benefit B | Benefit A<br>Benefit D | | |

| SUPPLEMENTAL PLAN 2<br>Others | | | | | | |
|---|---|---|---|---|---|---|
| Employer 1 | | | Employer 3 | | | Others.... |
| Grp C | Grp D | Others... | Grp C | Grp D | Others... | |
| Benefit C<br>Benefit D | Benefit E | | Benefit D | Benefit C | | |

| PRIMARY PENSION PLAN<br>All Members |
|---|
| *Common benefits for all NRA 65 and common benefits for all NRA 60* |



- Portability considerations – if a member transfers employment from an OMERS employer (with a particular Supplemental Plan benefit offering) to another (with a different benefit offering), the member will end up with fragmented pension benefits (i.e., different pension provisions applying to different periods of service). In addition, the Supplemental Plan contribution rate will likely differ for different benefit offerings.




- It is conceived that the initial past service costs (both going concern and solvency) will be allocated to the specific groups to whom past service benefits are initially granted – assumed to be shared with their employers on a 50%/50% basis.
- Future service costs are assumed to be pooled.
- Solvency cost is the cost to settle the plan benefits if the plan were to be wind up (hypothetically). Ontario pension legislation requires any solvency deficit to be paid off within 5 years. OMERS is not exempted from this funding requirement even though there is virtually no possibility of OMERS winding up.
- Solvency cost differs from going concern past service cost in that the former has to be measured using a regulated basis – e.g., solvency costs assume early retirement at the age when it is most advantageous to the member (unlike going concern costs which assume normal retirement patterns).
- As a result, solvency costs may be much higher than going concern costs.
- Rebound costs are intended to reflect a need to prevent cross-subsidies between the Primary Pension Plan and the Supplemental Plans.

## Cost Elements (cont.)

- Costing information provided as rough order of magnitude reference – they are generic, preliminary, non-employer specific
- Costs presented are actuarial costs based on current snapshot
  - Very rough indication of initial contribution rates (percentage of pay)
- Actual contribution rates have to be based on longer term projections and numerous other factors
- Start up costs not included



- Costing information in this presentation is based on the profile of the entire Primary Pension Plan membership.
- Actual contribution rates for each benefit offering will, in practice, depend on numerous factors such as the demographics of the members subscribing to that particular benefit offering. For example, if the average age of the members subscribing to a particular benefit offering is older than the average age of the entire Primary Pension Plan membership, the actual costs could be higher than what are presented here.
- In addition, if a member transfers employment from an OMERS employer (with a particular Supplemental Plan benefit offering) to another (with a different but less generous benefit offering), the member could conceivably contribute more if the demographics of the group subscribing to the less generous benefit offering cause that benefit offering to cost more.

## Cost Elements (cont.)

- For consistency, same going concern assumptions and methods as previous costings are used
  - subject to future review of continued appropriateness
- Membership updated to December 31, 2004
- Solvency basis updated to September 2005
- Measured separately for entire NRA 60 membership and entire NRA 65 membership
- As Supplemental Plans are developed, many factors will evolve to cause costing information to change



- The costings are quite dependent on the actuarial assumptions and methods that will be adopted.
- Actual plan experience (or even the experience within each benefit offering) and market conditions (such as investment returns) may change in the future and would lead to changes in the costs of Supplemental Plans.
- Each potential benefit offering has been independently costed – combination of benefit offerings would likely lead to actuarially-determined cost being higher than total of independent costs.

## Summary of Supplemental Plan Costs – NRA 60

***Costs include all past service benefits***

| | Benefit NRA 60 Members (Active Members Only) | Going Concern | | Solvency | Rebound Cost to Primary Pension Plan | | |
|---|---|---|---|---|---|---|---|
| | | Past Service Cost (% Of Earnings Over 15 Years) | Future Service Cost (% Of Earnings) | (% Of Earnings Over 5 Years) | (% Of Earnings) | Total Cost (With Solvency Funding) | Total Cost (Without Solvency Funding) |
| 1 | 2.5% reduction per year | 0.40% | 0.40% | 4.90% | 0.45% for 15 yrs; 0.15% thereafter | 6.15% for 1st 5 yrs, 1.25% for next 10 yrs; 0.55% thereafter | 1.25% for 15 yrs; 0.55% thereafter |
| 2 | 80 Factor, up to 10 years before NRA | 0.30% | 0.30% | 2.85% | 0.45% for 15 yrs; 0.15% thereafter | 3.90% for 1st 5 yrs; 1.05% for next 10 yrs; 0.45% thereafter | 1.05% for 15 yrs; 0.45% thereafter |
| 3 | 80 Factor, up to 15 years before NRA | 0.30% | 0.30% | 3.30% | 0.45% for 15 yrs; 0.15% thereafter | 4.35% for 1st 5 yrs; 1.05% for next 10 yrs; 0.45% thereafter | 1.05% for 15 yrs; 0.45% thereafter |
| 4 | 75 Factor, up to 10 years before NRA | 0.65% | 0.65% | 6.05% | 0.45% for 15 yrs; 0.15% thereafter | 7.80% for 1st 5 yrs; 1.75% for next 10 yrs, 0.80% thereafter | 1.75% for 15 yrs; 0.80% thereafter |
| 5 | 75 Factor, up to 15 years before NRA | 0.95% | 0.80% | 7.75% | 0.40% for 15 yrs; 0.10% thereafter | 9.90% for 1st 5 yrs; 2.15% for next 10 yrs; 0.90% thereafter | 2.15% for 15 yrs; 0.90% thereafter |

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- The costs are total employer and member costs. Each party will share the total costs on a 50%/50% basis.
- These costs are actuarial costs and should only be regarded as a very rough indication of initial contribution rates – numerous factors will influence contribution rates up or down from time to time. For example, new solvency deficits might arise in the future and lead to the initial contribution rates (as illustrated above) continuing beyond the first 5 years. Similarly, surpluses could lead to reduced contribution rates.
- OMERS is not currently exempted from solvency funding requirements. The column titled "Total Cost (Without Solvency Funding)" is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- If the Supplemental Plan benefits are not applied to past service, the costs of these benefits will likely fall somewhere between the first 15 year rates and the ultimate rates in the right hand column.

## Summary of Supplemental Plan Costs – NRA 60 *(cont.)*

***Costs include all past service benefits except for Item 8***

| | Benefit NRA 60 Members (Active Members Only) | Going Concern: Past Service Cost (% Of Earnings Over 15 Years) | Going Concern: Future Service Cost (% Of Earnings) | Solvency (% Of Earnings Over 5 Years) | Rebound Cost to Primary Pension Plan (% Of Earnings) | Total Cost (With Solvency Funding) | Total Cost (Without Solvency Funding) |
|---|---|---|---|---|---|---|---|
| 6 | 25 and Out, No Age Limit | 3.40% | 2.45% | 6.10% | 2.45% for 15 yrs; 0.60% thereafter | 14.40% for 1st 5 yrs; 8.30% for next 10 yrs; 3.05% thereafter | 8.30% for 15 yrs; 3.05% thereafter |
| 7 | 0.6% integration with CPP | 0.40% | 0.30% | 0.35% | N/A | 1.05% for 1st 5 yrs; 0.70% for next 10 yrs; 0.30% thereafter | 0.70% for 15 yrs; 0.30% thereafter |
| 8 | 2.33% Accrual (Future Service Only) | 0.00% | 3.55% | 0.00% | 0.45% for 15 yrs; 0.15% thereafter | 4.00% for 1st 15 yrs; 3.70% thereafter | 4.00% for 15 yrs; 3.70% thereafter |
| 9 | 2.33% Accrual (Past and Future Service) | 4.90% | 3.55% | 5.85% | 0.45% for 15 yrs; 0.15% thereafter | 14.75% for 1st 5yrs; 8.90% for next 10 yrs; 3.70% thereafter | 8.90% for 15 yrs, 3.70% thereafter |
| 10 | Final 3 Year Average Earnings | 1.40% | 1.00% | 1.95% | N/A | 4.35% for 1st 5yrs; 2.40% for next 10 yrs; 1.00% thereafter | 2.40% for 15 yrs; 1.00% thereafter |

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- The costs are total employer and member costs. Each party will share the total costs on a 50%/50% basis.
- These costs are actuarial costs and should only be regarded as a very rough indication of initial contribution rates – numerous factors will influence contribution rates up or down from time to time. For example, new solvency deficits might arise in the future and lead to the initial contribution rates (as illustrated above) continuing beyond the first 5 years. Similarly, surpluses could lead to reduced contribution rates.
- The reason why the 2.33% accrual (under item 8 in the above costing) does not lead to additional costs for the first 5 years is because the benefit is not applicable to past service (according to draft Bill 206) and therefore there is no initial solvency deficit. The reason why the costs are reduced after the first 15 years is due to the rebound cost – it is assumed that the additional benefits due to the 2.33% will lead to affected members retiring earlier, which in turn will potentially lead to an additional deficit under the Primary Pension Plan.
- OMERS is not currently exempted from solvency funding requirements. The column titled "Total Cost (Without Solvency Funding)" is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- If the Supplemental Plan benefits are not applied to past service, the costs of these benefits will likely fall somewhere between the first 15 year rates and the ultimate rates in the right hand column.

# Summary of Supplemental Plan Costs – NRA 65

***Costs include all past service benefits***

| | Benefit NRA 65 Members (Active Members Only) | Going Concern Past Service Cost (% Of Earnings Over 15 Years) | Going Concern Future Service Cost (% Of Earnings) | Solvency (% Of Earnings Over 5 Years) | Rebound Cost to Primary Pension Plan (% Of Earnings) | Total Cost (With Solvency Funding) | Total Cost (Without Solvency Funding) |
|---|---|---|---|---|---|---|---|
| 1 | 2.5% reduction per year | 0.45% | 0.50% | 3.95% | 0.30% for 15 yrs; 0.10% thereafter | 5.20% for 1st 5 yrs; 1.25% for next 10 yrs; 0.60% thereafter | 1.25% for 15 yrs; 0.60% thereafter |
| 2 | 85 Factor, up to 10 years before NRA | 0.25% | 0.25% | 1.85% | 0.30% for 15 yrs; 0.10% thereafter | 2.65% for 1st 5 yrs; 0.80% for next 10 yrs; 0.35% thereafter | 0.80% for 15 yrs; 0.35% thereafter |
| 3 | 85 Factor, up to 15 years before NRA | 0.40% | 0.35% | 3.95% | 0.35% for 15 yrs; 0.15% thereafter | 5.05% for 1st 5 yrs; 1.10% for next 10 yrs; 0.50% thereafter | 1.10% for 15 yrs; 0.50% thereafter |
| 4 | 80 Factor, up to 10 years before NRA | 0.60% | 0.65% | 4.40% | 0.30% for 15 yrs; 0.10% thereafter | 5.95% for 1st 5 yrs; 1.55% for next 10 yrs; 0.75% thereafter | 1.55% for 15 yrs; 0.75% thereafter |

OMERS W 14

- The costs are total employer and member costs. Each party will share the total costs on a 50%/50% basis.
- As noted on the previous slide, these costs are actuarial costs and should only be regarded as a very rough indication of initial contribution rates – numerous factors will influence contribution rates up or down from time to time. For example, new solvency deficits might arise in the future and lead to the initial contribution rates (as illustrated above) continuing beyond the first 5 years. Similarly, surpluses could lead to reduced contribution rates.
- OMERS is not currently exempted from solvency funding requirements. The column titled "Total Cost (Without Solvency Funding)" is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- If the Supplemental Plan benefits are not applied to past service, the costs of these benefits will likely fall somewhere between the first 15 year rates and the ultimate rates in the right hand column.

## Summary of Supplemental Plan Costs – NRA 65 *(cont.)*

***Costs include all past service benefits***

| | Benefit NRA 65 Members (Active Members Only) | Going Concern | | Solvency | Rebound Cost to Primary Pension Plan | | |
|---|---|---|---|---|---|---|---|
| | | Past Service Cost (% Of Earnings Over 15 Years) | Future Service Cost (% Of Earnings) | (% Of Earnings Over 5 Years) | (% Of Earnings) | Total Cost (With Solvency Funding) | Total Cost (Without Solvency Funding) |
| 5 | 80 Factor, up to 15 years before NRA | 1.10% | 0.95% | 7.15% | 0.45% for 15 yrs; 0.15% thereafter | 9.65% for 1st 5 yrs; 2.50% for next 10 yrs; 1.10% thereafter | 2.50% for 15 yrs; 1.10% thereafter |
| 6 | 30 and Out, No Age Limit | 0.60% | 0.35% | 1.65% | 0.25% for 15 yrs; 0.10% thereafter | 2.85% for 1st 5 yrs; 1.20% for next 10 yrs; 0.45% thereafter | 1.20% for 15 yrs; 0.45% thereafter |
| 7 | 0.6% integration with CPP | 0.45% | 0.50% | 0.40% | N/A | 1.35% for 1st 5 yrs, 0.95% for next 10 yrs; 0.50% thereafter | 0.95% for 15 yrs; 0.50% thereafter |
| 10 | Final 3 Year Average Earnings | 0.65% | 0.70% | 1.15% | N/A | 2.50% for 1st 5 yrs; 1.35% for next 10 yrs; 0.70% thereafter | 1.35% for 15 yrs; 0.70% thereafter |

OMERS W 15

- The costs are total employer and member costs. Each party will share the total costs on a 50%/50% basis.
- As noted on the previous slide, these costs are actuarial costs and should only be regarded as a very rough indication of initial contribution rates – numerous factors will influence contribution rates up or down from time to time. For example, new solvency deficits might arise in the future and lead to the initial contribution rates (as illustrated above) continuing beyond the first 5 years. Similarly, surpluses could lead to reduced contribution rates.
- The 2.33% accrual would only apply to members of public safety occupations and therefore is not included in the above chart.
- OMERS is not currently exempted from solvency funding requirements. The column titled "Total Cost (Without Solvency Funding)" is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- If the Supplemental Plan benefits are not applied to past service, the costs of these benefits will likely fall somewhere between the first 15 year rates and the ultimate rates in the right hand column.

## Possible Factors Affecting Actual Costs and Contribution Rates

- Additional regulatory compliance, administration and actuarial issues which could surface and impact final design and delivery of Supplemental Plan benefits
- Local employer profile (e.g. age and length of service)
- Plan and market experience (e.g. actual plan early retirement experience)
- Funding policy to be adopted (e.g. valuation method)
- Higher operation costs

## Illustrations

- Developed for sole purpose of assisting in understanding information provided and potential cost structure of Supplemental Plans – not to be construed as definitive final cost structure or contribution rates
- Two examples are developed:
  - *Example 1* – Application for typical NRA 60 member and his/her employer
  - *Example 2* – Application for typical NRA 65 member and his/her employer
  - *Example 3* – Application for hypothetical employer

## Example 1 – NRA 60

- Profile of a typical NRA 60 member:

| | |
|---|---|
| Average age: | 41 |
| Average credited service: | 14 years |
| Average pensionable earnings: | $69,500 |

- Benefit offering:
  - Item 4 (75 Factor, up to 10 years before NRA)

# Example 1 – NRA 60 *(cont.)*

Potential annual cost structure as % of pay:

| | Item 4 (75 Factor, up to 10 years before NRA) | |
|---|---|---|
| | **Cost (with solvency funding)** | **Cost (without solvency funding)** |
| Total (Member and Employer) | 7.80% for 1st 5 yrs; 1.75% for next 10 yrs; 0.80% thereafter | 1.75% for 1st 15 yrs; 0.80% thereafter |
| Member 50% share | 3.90% for 1st 5 yrs; 0.88% for next 10 yrs; 0.40% thereafter | 0.88% for 1st 15 yrs; 0.40% thereafter |



- Cost information in the above chart is derived from slide 12
- Costs presented above do not include contributions to the Primary Pension Plan.
- OMERS is not currently exempted from solvency funding requirements. The column titled "Total Cost (Without Solvency Funding)" is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- Cost information should be regarded as very rough.

# Example 1 – NRA 60 *(cont.)*

- Initial annual dollar contributions by NRA60 member in example (very approximate):

| Annual Earnings $69,500 | Initial annual member contributions | | Percentage increase in initial annual member contributions |
|---|---|---|---|
| | Primary Pension Plan | Supplemental Plan Item 4 (75 Factor, up to 10 years before NRA) | |
| **With Solvency Funding** | $6,290<br>• *7.9% of earnings up to YMPE*<br>• *10.7% of earnings above YMPE* | $2,720<br>• *Average of 3.9% of earnings* | +43% |
| **Without Solvency Funding** | $6,290<br>• *7.9% of earnings up to YMPE*<br>• *10.7% of earnings above YMPE* | $620<br>• *Average of 0.88% of earnings* | +10% |



- The contributions to the Primary Pension Plan reflect the proposed increase effective January 1, 2006.
- For ease of illustration, the contributions to the Supplemental Plan in the above table includes the Rebound Cost which, in fact, will be directed to the Primary Pension Plan.
- Member contributions are tax-deductible up to the Income Tax Act limits.
- OMERS is not currently exempted from solvency funding requirements. The section titled "Total Cost (Without Solvency Funding)" is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- Cost information should be regarded as very rough.

## Example 2 – NRA 65

- Profile of a typical NRA 65 member:

| | |
|---|---|
| Average age: | 45 |
| Average credited service: | 10 years |
| Average pensionable earnings: | $47,100 |

- Benefit offering:
  - Item 6 (30 and Out, no age limit)

## Example 2 – NRA 65 *(cont.)*

Potential annual cost structure as % of pay:

| | Item 6 (30 and Out, no age limit) | |
|---|---|---|
| | **Cost (with solvency funding)** | **Cost (without solvency funding)** |
| Total (Member and Employer) | **2.85% for 1st 5 yrs; 1.20% for next 10 yrs; 0.45% thereafter** | **1.20% for 1st 15 yrs; 0.45% thereafter** |
| Member 50% share | **1.43% for 1st 5 yrs; 0.60% for next 10 yrs; 0.23% thereafter** | **0.60% for 1st 15 yrs; 0.23% thereafter** |



- Cost information in the above chart is derived from slide 15
- Costs presented above do not include contributions to the Primary Pension Plan.
- OMERS is not currently exempted from solvency funding requirements. The column titled "Total Cost (Without Solvency Funding)" is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- Cost information should be regarded as very rough.

# Example 2 – NRA 65 *(cont.)*

- Initial annual dollar contributions by NRA65 member in example (very approximate):

| Annual Earnings $47,100 | Initial annual member contributions | | Percentage increase in initial annual member contributions |
|---|---|---|---|
| | Primary Pension Plan | Supplemental Plan Item 6 (30 and Out, no age limit) | |
| **With Solvency Funding** | $3,250<br>• *6.5% of earnings up to YMPE*<br>• *9.6% of earnings above YMPE* | $680<br>• *Average of 1.43% of earnings* | +21% |
| **Without Solvency Funding** | $3,250<br>• *6.5% of earnings up to YMPE*<br>• *9.6% of earnings above YMPE* | $290<br>• *Average of 0.6% of earnings* | +9% |



- The contributions to the Primary Pension Plan reflect the proposed increase effective January 1, 2006.
- For ease of illustration, the contributions to the Supplemental Plan in the above table includes the Rebound Cost which, in fact, will be directed to the Primary Pension Plan.
- Member contributions are tax-deductible up to the Income Tax Act limits.
- OMERS is not currently exempted from solvency funding requirements. The section titled “Total Cost (Without Solvency Funding)” is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- Cost information should be regarded as very rough.

# Example 3 – Hypothetical Employer

- Consider hypothetical employer with 1,000 employees subscribing to Supplemental Plans for both NRA 60 and NRA 65 members

| | NRA 60 | NRA 65 | Total |
|---|---|---|---|
| Headcount | 260 | 740 | 1,000 |
| Employee Profile | Average of entire OMERS NRA 60 membership | Average of entire OMERS NRA 65 membership | n/a |
| Est. Annual Payroll | $18.1 million | $34.9 million | $53.0 million |
| Supplemental Plan Benefits | Item 4 (75 Factor, up to 10 years before NRA) | Item 6 (30 and Out, no age limit) | n/a |



- Example 3 builds on example 1 and example 2.
- Make up of number of NRA 60 and NRA 65 members based on a typical municipality.

## Example 3 – Hypothetical Employer *(cont.)*

- Hypothetical annual employer Supplemental Plan cost for benefits selected – matched by members:

| | NRA 60 | NRA 65 | Total |
|---|---|---|---|
| Employer Cost (with solvency funding) | | | |
| Expressed as % of pay | 3.90% for 1st 5 yrs; 0.88% for next 10 yrs; 0.40% thereafter | 1.43% for 1st 5 yrs; 0.60% for next 10 yrs; 0.23% thereafter | n/a |
| Initial annual cost | [3.90% x $18.1 million] $0.71 million | [1.43% x $34.9 million] $0.50 million | $1.21 million |
| Employer Cost (without solvency funding) | | | |
| Expressed as % of pay | 0.88% for 1st 15 yrs; 0.40% thereafter | 0.60% for 1st 15 yrs; 0.23% thereafter | n/a |
| Initial annual cost | [0.88% x $18.1 million] $0.16 million | [0.60% x $34.9 million] $0.21 million | $0.37 million |



- Example 3 builds on example 1 and example 2. Cost information for the NRA 60 group is based on example 1 from slide 19 and cost information for the NRA 65 group is based on example 2 from slide 22.
- Costs presented above do not include contributions to the Primary Pension Plan.
- OMERS is not currently exempted from solvency funding requirements. The section titled "Total Cost (Without Solvency Funding)" is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- Cost information should be regarded as very rough.

# Example 3 – Hypothetical Employer *(cont.)*

- Initial annual dollar contributions by hypothetical employer in example (very approximate) – matched by members:

| | NRA 60 | NRA 65 | Total |
|---|---|---|---|
| **Primary Pension Plan** | **$1.64 million**<br>• *7.9% of earnings up to YMPE*<br>• *10.7% of earnings above YMPE* | **$2.40 million**<br>• *6.5% of earnings up to YMPE*<br>• *9.6% of earnings above YMPE* | **$4.04 million** |
| **Supplemental Plans (With Solvency Funding)** | **$0.71 million**<br>• *Average of 3.90% of earnings* | **$0.50 million**<br>• *Average of 1.43% of earnings* | **$1.21 million** |
| **Supplemental Plans (Without Solvency Funding)** | **$0.16 million**<br>• *Average of 0.88% of earnings* | **$0.21 million**<br>• *Average of 0.6% of earnings* | **$0.37 million** |
| **Total (With Solvency Funding)** | **$2.35 million** | **$2.95 million** | **$5.25 million** |
| **Total (Without Solvency Funding)** | **$1.80 million** | **$2.61 million** | **$4.41 million** |



- The contributions to the Primary Pension Plan reflect the proposed increase effective January 1, 2006.
- For ease of illustration, the contributions to the Supplemental Plan in the above table includes the Rebound Cost which, in fact, will be directed to the Primary Pension Plan.
- OMERS is not currently exempted from solvency funding requirements. The section titled "Total Cost (Without Solvency Funding)" is only shown to illustrate how much the Supplemental Plan costs could potentially be reduced if OMERS were to be exempted.
- Cost information should be regarded as very rough.

## Recap

- Supplemental Plans provide flexibility in benefit arrangements through bargaining at local level
- Benefits provided through Supplemental Plans intended to complement benefits provided in Primary Pension Plan
- Other vehicles do not provide same level of flexibility to tailor benefits

## Recap (cont.)

- Costs associated with respective benefit improvements broken down into past and future service costs, solvency costs and rebound costs – some benefit improvements cheaper than others
- Costing information provided as rough order of magnitude reference – they are generic, preliminary, non-employer specific
- As Supplemental Plans are developed, many factors will evolve to cause costing information to change

# Supplemental Plans Generic Information

Stakeholder Meeting
September 23, 2005

OMERS

Watson Wyatt Worldwide