

Member Update

Number 75, Winter 2006

Special Notice

The new OMERS Act – What you should know

**New structure under
the OMERS Act**
See page 4.

Bill 206 (*An Act to Revise the Ontario Municipal Employees Retirement System Act*) was passed by the Ontario legislature on February 23, 2006. The Act will take effect upon proclamation, which is expected later this year. This legislation establishes a new and independent governance model for OMERS, gives employers and employees more control over the OMERS pension plan and introduces supplemental plans. The government also announced that the new governance model will be reviewed in 2012 to assess its fairness, accountability and efficiency.

“Independent governance builds on the solid foundation we have developed over more than 40 years,” said David Kingston, OMERS Board Chair. “We’re ready to work with the Sponsors Corporation in the best interests of OMERS members.”

Here are the key provisions of the new Act, highlighting what doesn’t change, what does and when.

OMERS pensions are strong and secure

The current OMERS pension plan continues as a defined benefit pension plan, equally funded by employers and contributing plan members. With the new OMERS Act, current pension benefits and contribution rates do not change. The plan continues to provide guaranteed retirement income for life, including inflation protection and excellent survivor and disability benefits.

OMERS focus will not change

We continue to focus on managing investments and administering the plan. Our investment strategy, which earned a return of 16% in 2005, will not change as a result of the new Act. This is important because, over the long term, investment earnings account for approximately 70% of the funding for OMERS pensions.

Safeguards in place

Like all registered pension plans, OMERS is subject to laws that protect the rights of members and set investment limits to minimize risk to the pension fund. The new OMERS Act does not affect these provisions.

Our pension services will not change

In 2005, OMERS met or exceeded every one of our pension industry service standards, and we work constantly to improve our performance in meeting the needs and expectations of members, employers and retirees.

Independence for OMERS means those who pay for the plan make the key plan design decisions

Essentially, the new OMERS Act changes the plan’s sponsor. The Province of Ontario makes no direct contributions to the plan but, until now, made all final decisions on such things as plan design, benefit changes and appointments to the OMERS Board.

Independent governance builds on the solid foundation we have developed over more than 40 years. We're ready to work with the Sponsors Corporation in the best interests of OMERS members.

David Kingston
Chair, OMERS Board

The new OMERS Act replaces the government as sponsor with the new OMERS Sponsors Corporation, whose Board of Directors will represent the current and former employees who are members of OMERS, and the municipalities and other organizations that employ them.

The Sponsors Corporation will have the final say on important issues, including plan design (the structure and type of benefits offered) and contribution rate changes. These types of decisions will require a two-thirds majority of the Sponsors Corporation. If the Sponsors Corporation cannot agree on a proposed change, the new Act establishes transitional rules for the use of mediation and arbitration.

In addition to the Sponsors Corporation, the new OMERS Act continues the OMERS Board as the OMERS Administration Corporation, responsible for pension administration and investments. (See below.)

Equal representation for plan members and employers

Initially, both Boards will have equal numbers of member and employer representatives. In the future, the Sponsors Corporation will determine the composition of both Boards. For details, see page 4.

New OMERS Act removes caps on pension formula

The new OMERS Act removes the limits on the OMERS pension formula, which used to be in the *Municipal Act, 2001*. Like other registered pension plans, any improvements in the

formula continue to be subject to maximums under the *Income Tax Act*. Future changes to the pension formula will require Sponsors Corporation approval.

Funding reserve required to stabilize contribution rates

The new OMERS Act includes a new requirement that contribution rates cannot be reduced, nor plan changes made, unless the plan is in a 105% funded position (assets are at least 5% more than liabilities). This requirement does not apply to supplemental plans. Also, it does not apply to plan changes that do not increase liabilities by more than 1%, or those required for legal compliance.

Supplemental plans for police, firefighters and paramedics

Under the new OMERS Act, a supplemental plan must be established within two years for police officers, firefighters and paramedics. Supplemental pension plans are separately funded, stand-alone registered pension plans that will offer benefits not available in the current plan. (See page 3.)

Supplemental plan benefits must be negotiated

Eligible employers and members would locally bargain their participation and the benefits offered in supplemental plans. Only one benefit may be bargained initially. Subsequently, additional benefits can be bargained one at a time, at three-year intervals.

Do paramedics get the same benefits?

The new OMERS Act treats paramedics the same as police and firefighters. Because the Act does not change the terms of the current plan, however, the new Act does not automatically make paramedics eligible for a normal retirement age of 60. Under the current plan, a normal retirement age of 60 is available only to police officers and firefighters. A Sponsors Corporation decision would be required to amend the plan to extend this benefit to paramedics.

Paramedics are still eligible for the other benefits provided in the police and fire sector supplemental plan, with the exception of the ability to retire early without a penalty when

Governance structure: Current

Provincial Cabinet

- Plan design/ benefit changes
- Contribution rates

OMERS Board

- Plan administration
- Investment of funds

Governance structure: New OMERS Act

Sponsors Corporation

- Plan design/ benefit changes
- Contribution rates

Administration Corporation

- Plan administration
- Investment of funds

Supplemental plan benefits for police, firefighters and paramedics

Supplemental benefit	What it provides	Current benefit under primary plan
2.33% pension formula	Lifetime pension plus bridge benefit to age 65 = up to 2.33% x service x earnings	Lifetime pension plus bridge benefit to age 65 = 2.00% x service x earnings (integrated with CPP)
85 Factor (available to normal retirement age 65 members)	Retire with unreduced pension if: age + service = 85 or more	90 Factor for normal retirement age 65 members
80 Factor (available to normal retirement age 60 members)	Retire with unreduced pension if: age + service = 80 or more	85 Factor for normal retirement age 60 members
3-year average annual earnings	Pension calculated on average of 3 years of earnings	Pension calculated on annual average of highest consecutive 60 months of earnings
4-year average annual earnings	Pension calculated on average of 4 years of earnings	Pension calculated on annual average of highest consecutive 60 months of earnings

Notes:

- To be eligible for early retirement factors, members must be within 10 years of normal retirement age.
- All supplemental benefits apply to service accruals after the supplemental benefit is implemented (i.e., all prior service remains under current rules) unless the past service associated with the particular benefit is paid for by the employer and/or member.
- The member has the option to pay for supplemental coverage on all or part of past service. Although not required, employers may pay past service costs for supplemental plans (with the exception of the higher annual accrual rate).

age plus credited service equals 80. The new Act clearly states that this benefit is contingent upon a member having a normal retirement age of 60.

Only those in supplemental plans pay for them

Each supplemental plan will be funded by the contributions of the employers and employees who participate in that particular plan, as well as the investment earnings on those contributions. No assets of the current plan may be used to fund any benefits or other liabilities of a supplemental plan.

Will supplemental plans be offered to other members?

The legislation also permits the Sponsors Corporation to establish supplemental plans for other OMERS members.

Additional costs as a result of the new OMERS Act

There will be start-up costs related to implementing the new governance model (for example, costs associated with establishing the Sponsors Corporation). At this point, it is not certain how these costs will be funded. We are assessing possible funding sources.

There will be ongoing operating costs for the new Sponsors Corporation. The new Act requires the Administration Corporation to reimburse the Sponsors Corporation for lawful expenses. The Sponsors Corporation may charge fees to active members and employers to cover its remaining expenses. These fees would be collected by the Administration Corporation.

There will also be costs associated with the benefits of supplemental plans. In 2005, OMERS developed generic estimated costs for supplemental plan benefits and distributed

them to stakeholders. Benefit costs for a specific employer are difficult to predict since the supplemental plans do not yet exist.

The Ontario government intends to seek legislative approval to exempt supplemental plans from the solvency funding requirement in the *Pension Benefits Act*. This would have the effect of reducing the costs of these plans.

What the new OMERS Act means to you

There is no need for you to do anything different. Your pension remains secure, funded by equal employer and employee contributions. Your access to OMERS pension services and information will not change.

In future, the Sponsors Corporation will be making decisions that may affect you, on issues such as contribution rates, plan changes and use of surplus. Our commitment is to keep you fully informed of any changes and provide all the information you need regarding your OMERS pension.

What happens next?

The new governance model will be implemented when the legislation comes into effect and the government appoints the members of both boards.

More information

Visit www.omers.com and click on Bill 206/OMERS Act (in the Quick Links section). You'll find an overview of the legislation, FAQs, a link to the complete text of the new OMERS Act, and other information. We'll continue to post new information as it becomes available.

Questions about your OMERS pension? Don't hesitate to contact OMERS Client Services.

New structure under the OMERS Act*

Sponsors Corporation

- Responsible for plan design, benefits and contribution rates (two-thirds majority required)
- 14 voting members, initially appointed by the Ontario government for up to 1 year
- From the first anniversary until the Sponsors Corporation passes a by-law dealing with its composition, CUPE (Ontario) representative has 3 votes; AMO's 2 representatives have 2 votes each; all other members have 1 vote each
- Two Advisory Committees appointed by the Sponsors Corporation: an 8-member committee for police/fire/paramedics and a 12-member committee for other members and employers.

Employer Representatives		Plan Member Representatives	
• Association of Municipalities of Ontario	2	• Canadian Union of Public Employees (Ontario)	1
• City of Toronto	1	• CUPE Local 79 and 416 (rotates between locals)	1
• School Boards (rotates between public and Catholic Boards)	1	• Police Association of Ontario	1
• Ontario Association of Police Service Boards	1	• Ontario Professional Fire Fighters Association	1
• Other employers (rotates among representatives of other employers)	2	• Ontario Secondary School Teachers' Federation	1
		• Other contributing members (rotates among other unions and associations)	1
		• Members receiving or entitled to a pension (rotates among organizations representing these members)	1

Administration Corporation

- Responsible for investment of funds, plan administration and services to plan participants
- 14 voting members, initially appointed by the Ontario government, for up to 3 years.

Employer Representatives		Plan Member Representatives	
• Association of Municipalities of Ontario	2	• Canadian Union of Public Employees (Ontario)	2
• City of Toronto	1	• Police Association of Ontario	1
• School Boards (rotates between public and Catholic Boards)	1	• Association of Municipal Managers, Clerks and Treasurers of Ontario	1
• Ontario Association of Police Service Boards	1	• Ontario Professional Fire Fighters Association	1
• Other employers (rotates among representatives of other employers)	2	• Other contributing members (rotates among other unions and associations)	1
		• Members receiving or entitled to a pension (rotates among organizations representing these members)	1

*Transitional composition, subject to Sponsors Corporation by-laws. (Changes to Board composition can be made by Sponsors Corporation by-law and require a simple majority for changes to the Sponsors Corporation and a two-thirds majority for changes to the Administration Corporation.)



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