



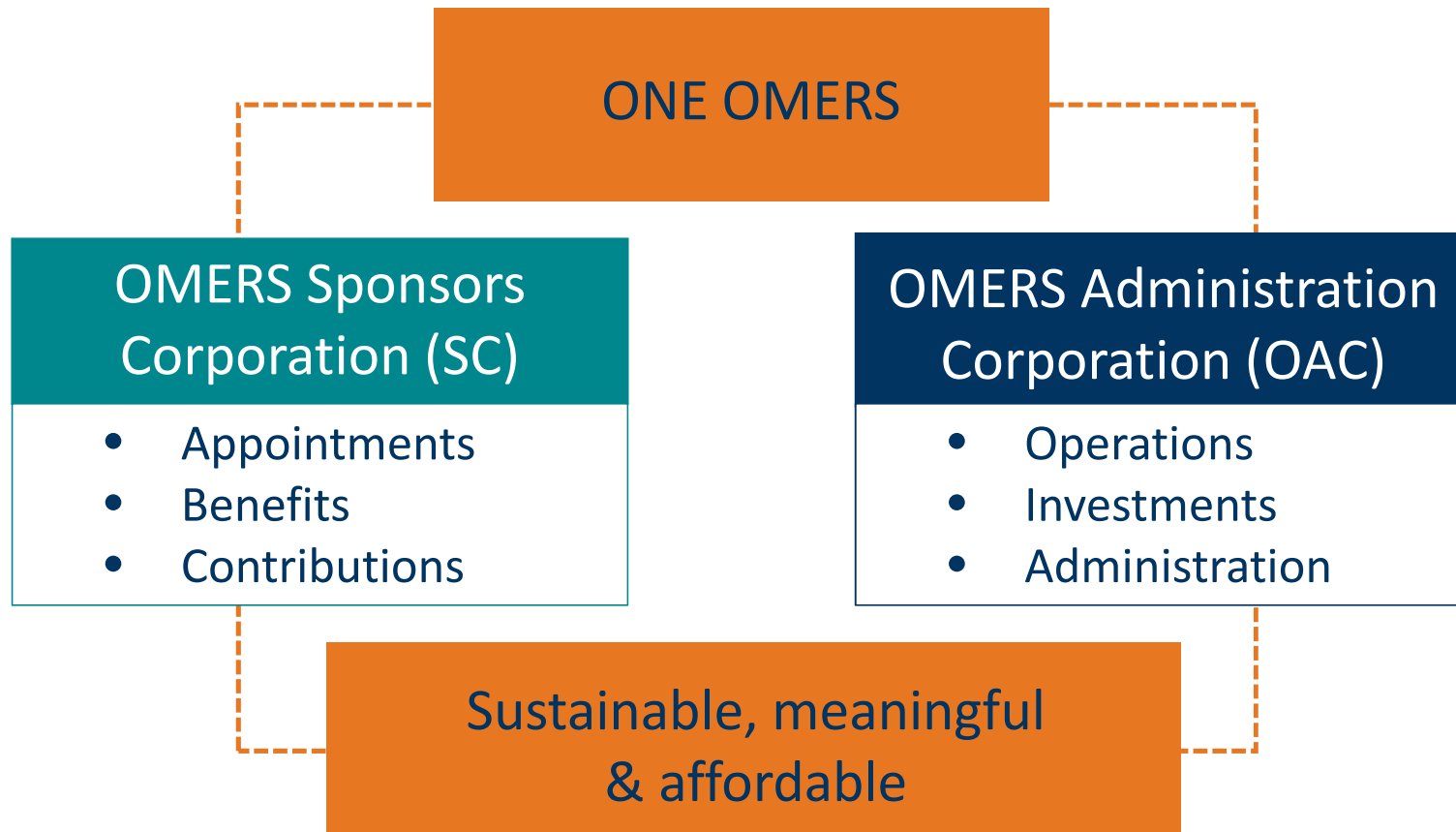
*Plan for the Future*

# Update on the Comprehensive Plan Review

Paul Harrietha  
Chief Executive Officer

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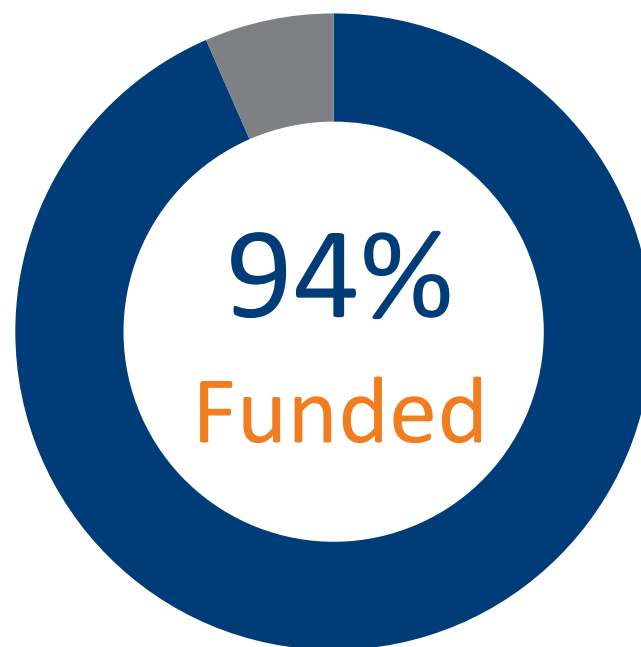
# OUR GOVERNANCE STRUCTURE



## 2017 IN REVIEW

11.5%  
Net Return

\$95B  
Net Assets



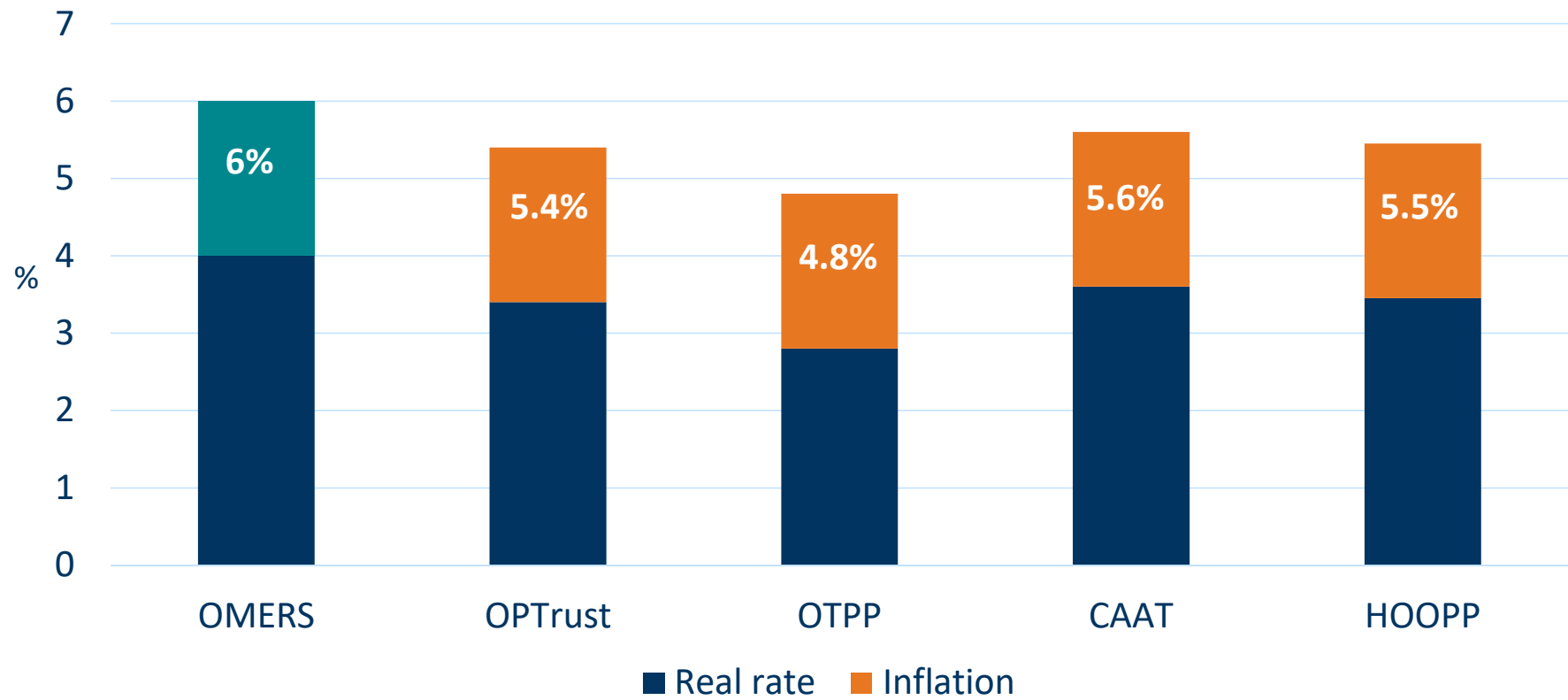
## OUR FINANCIAL CHALLENGE

Plan	Funded status	Funded ratio
OMERS	(\$5.4 billion)*	94%
OPTrust	\$134 million*	101%
OTPP	\$10.3 billion*	105%
CAAT	\$2.3 billion**	118%
HOOPP	\$13.2 billion*	122%

\*As at December 31, 2017

\*\*As at January 1, 2018

# THE DISCOUNT RATE

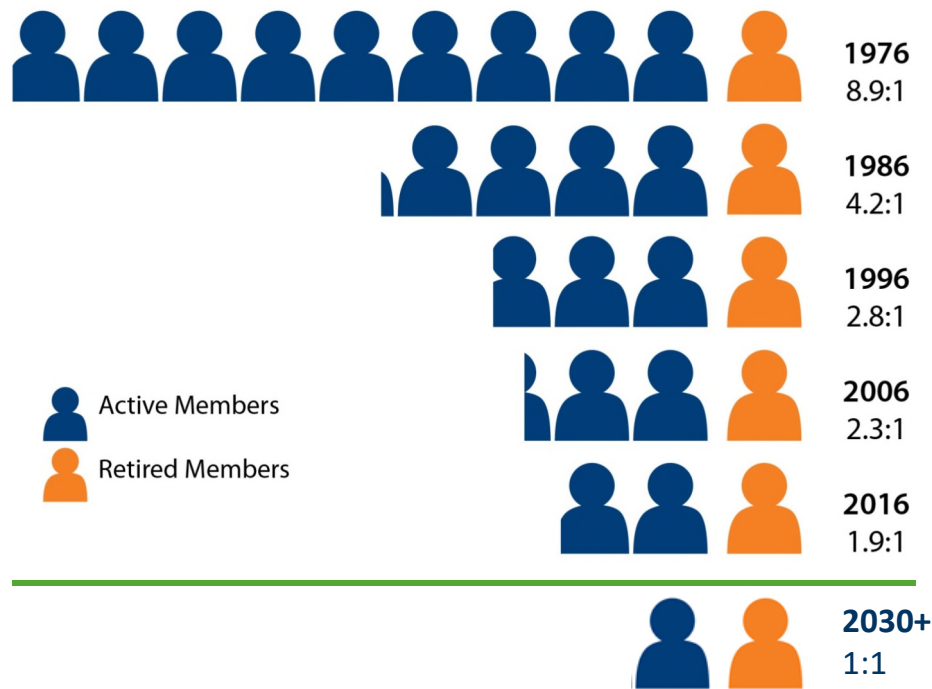




# The Headwinds

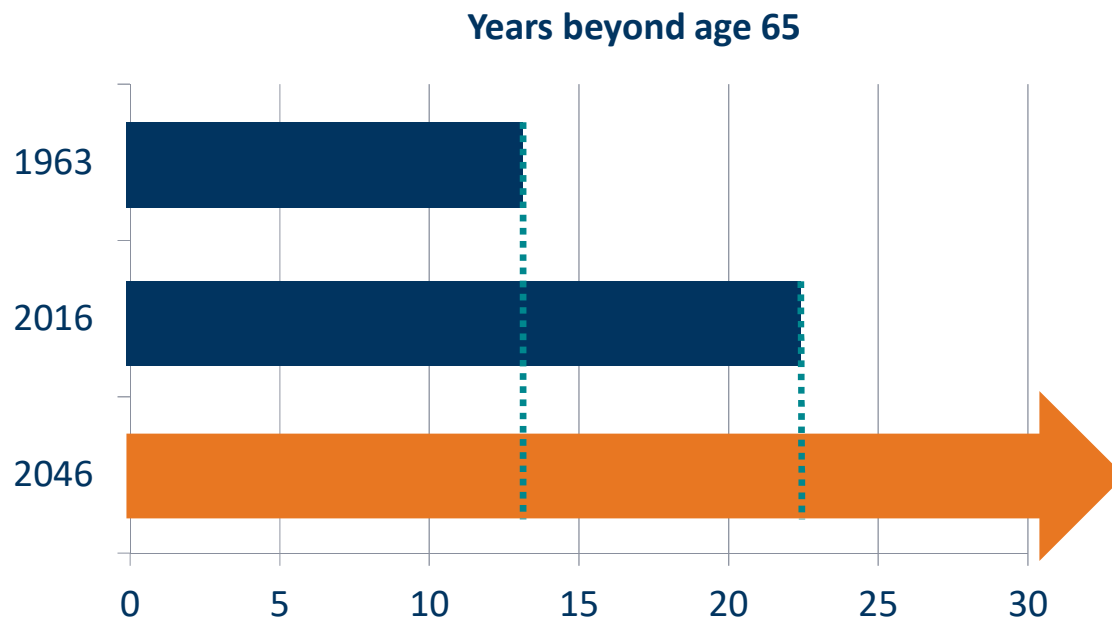
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# PLAN MATURITY



- With proportionally fewer contributing members to make up for potential investment losses, the Plan will become more vulnerable to economic downturns
- Intensifies the likelihood of negative cash flows (annual pension payments exceed contributions)

# LONGEVITY

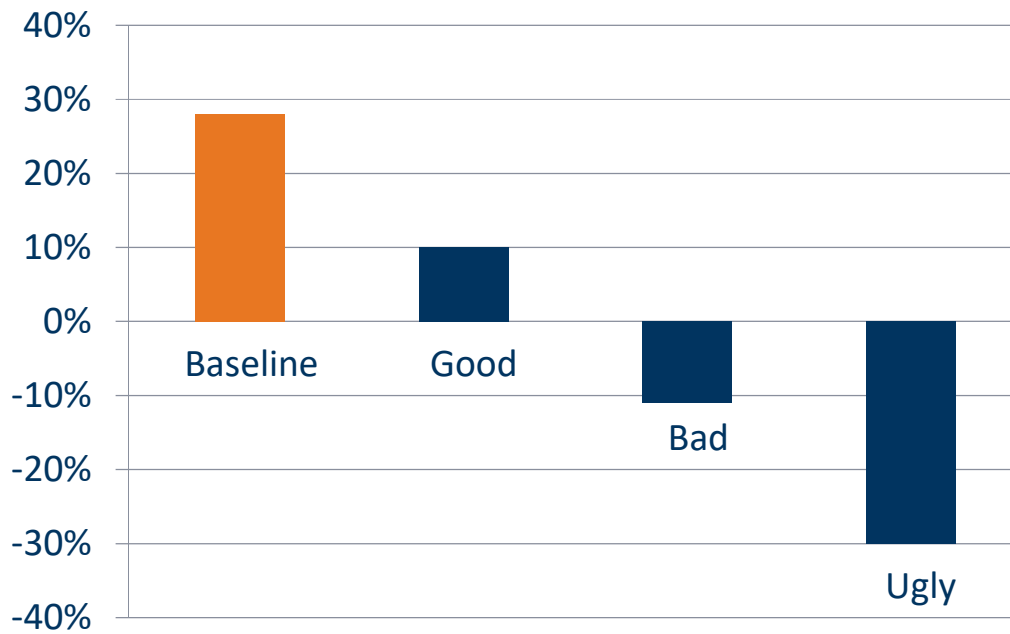


- When people collect pensions for longer periods, the result is increased Plan liabilities and, by extension, higher Plan costs

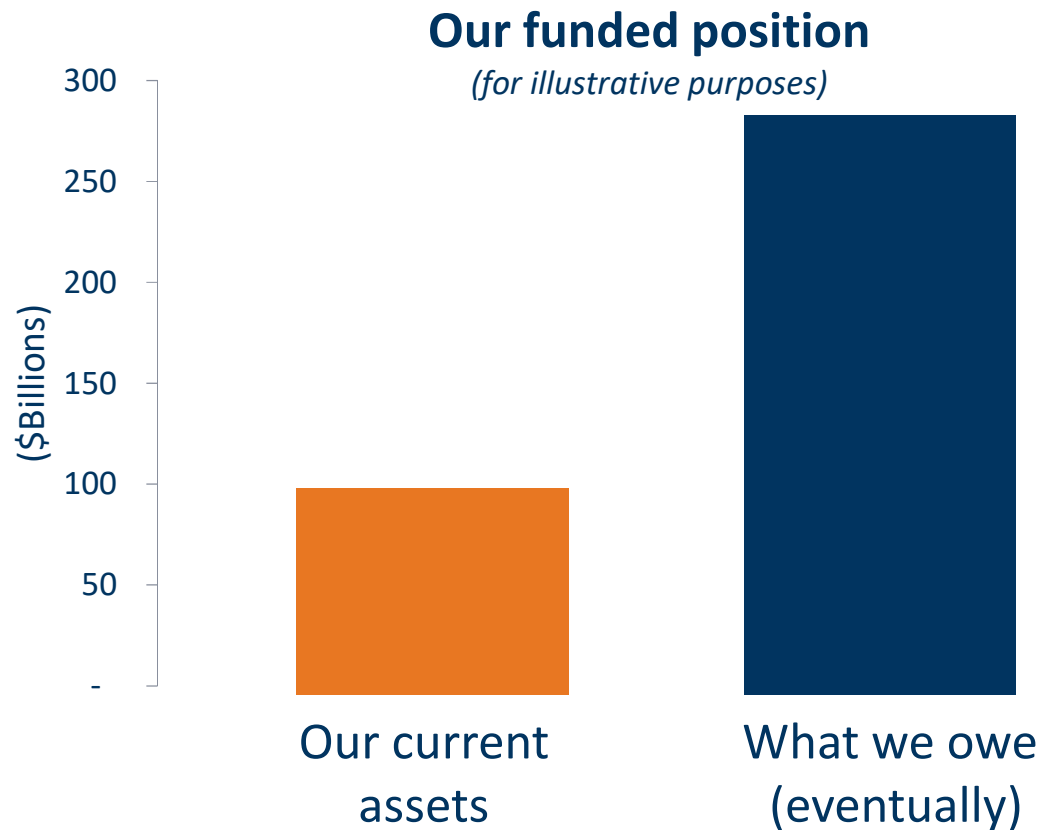


# WORKFORCE TRENDS

Active Membership Growth in 25 Years



- Any decline in membership intensifies our maturity challenges – and makes the Plan even more susceptible to economic shocks



- We are highly dependent on future investment income
- The strong investment returns of recent years are going to be difficult to match in the future
- Particularly as the world's population ages

## CPP ENHANCEMENTS

- Canada Pension Plan enhancements begin in 2019
- Increases benefits – and cost for both members and employers
- We need to consider how our Plan should adjust, if at all

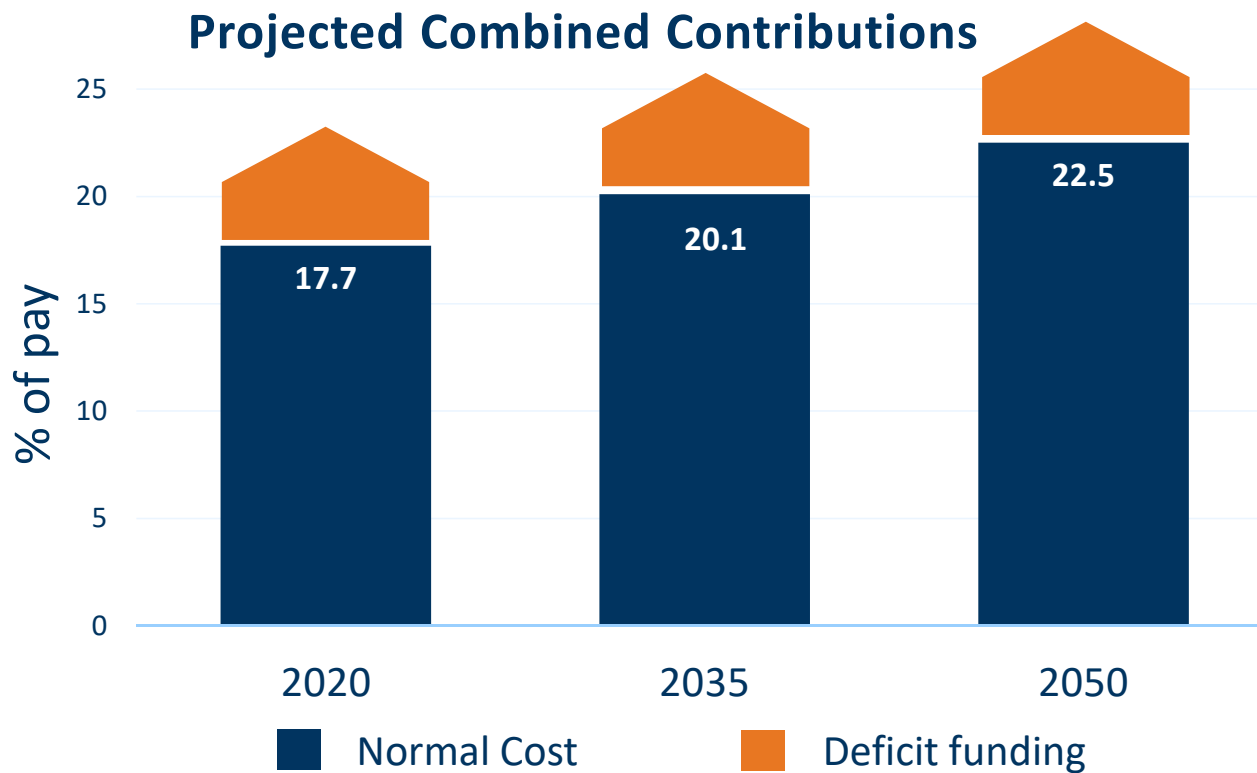




The proposed changes:  
sustainable, meaningful  
& affordable

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# MANAGING PLAN COSTS



- Left unchanged, the cost of the current plan will increase steadily over time
- Strong probability that combined contributions will exceed 22.6% (the current Plan maximum)

## THREE PRIMARY OPTIONS

1

Pay more for  
the same  
coverage

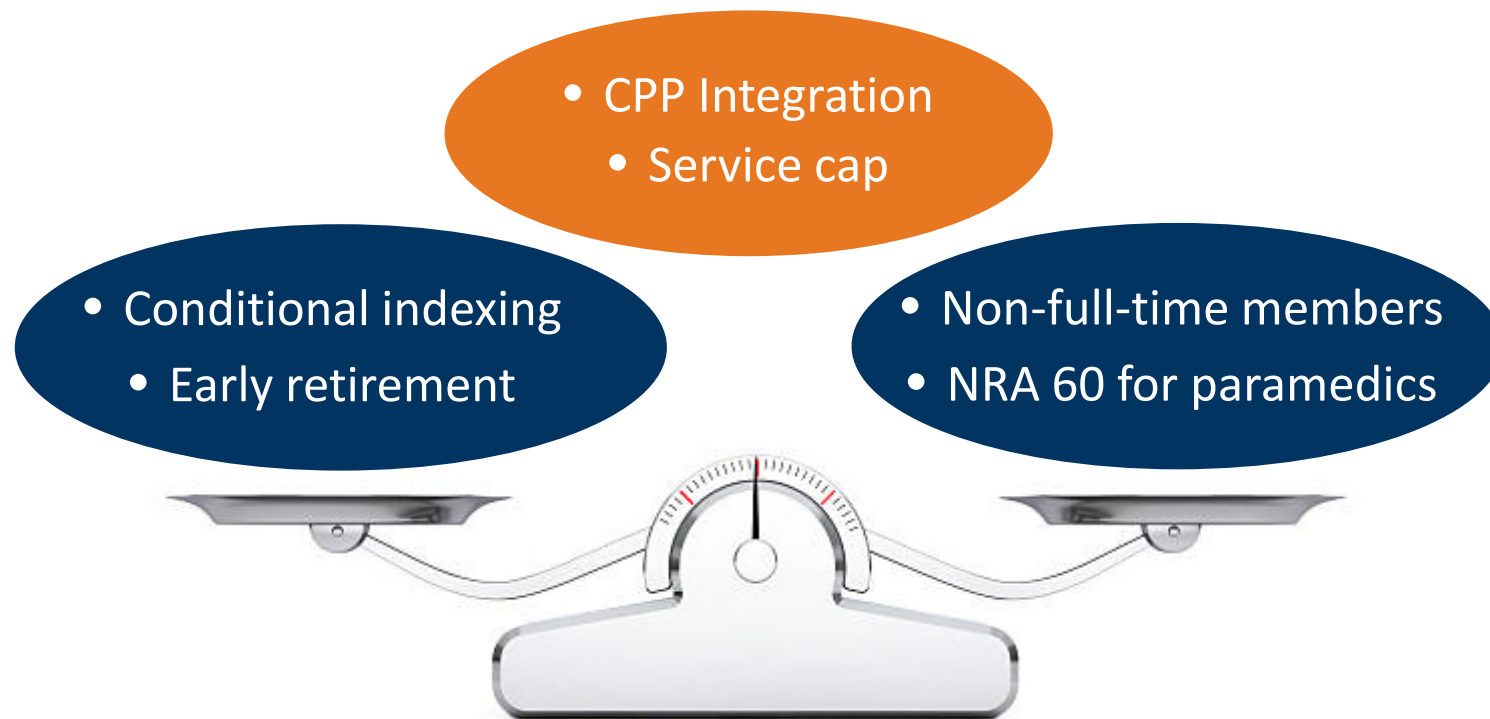
2

Pay the same  
for reduced  
coverage

3

Modernize the  
plan (optimize)

# A BALANCED APPROACH



## PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
Indexing	<ul style="list-style-type: none"><li>• Guaranteed</li><li>• Up to 6% annually based on CPI</li></ul>	<ul style="list-style-type: none"><li>• Conditional, <u>subject to amended FMS</u></li><li>• Provided for retired members until 2025</li></ul>

### Rationale:

- Addresses plan maturity / enhances risk management capacity
- Indexing based on Plan's financial health
- During difficult times, adjustments reduced or suspended on a temporary basis
- Provides a lever to manage economic uncertainty
- Enhances potential for intergenerational equity



## PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
Accrual rate	<ul style="list-style-type: none"><li>1.325% / 2% integrated with Year's Maximum Pensionable Earnings (YMPE)</li></ul>	<ul style="list-style-type: none"><li>1.325% / 2% integrated with new Year's Additional Maximum Pensionable Earnings (YAMPE)</li></ul>

### Rationale:

- Recognizes the enhanced CPP – benefits and costs
- Allow members to accrue a larger combined pension
- OMERS and CPP produces a gross replacement rate of 74% – 80% (currently 70%)

# PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
Early retirement	<ul style="list-style-type: none"><li>• 30 years of service or 90 (85) points</li><li>• Age/points based on “eligible” service</li><li>• 5% reduction per year or point prior to above</li></ul>	<ul style="list-style-type: none"><li>• 30 years of service or 90 (85) points, plus age 60 (55)</li><li>• Age/points based on “contributory” service</li><li>• Actuarial equivalent to NRA</li></ul>

## Rationale:

- Partially reflects the impact of longer lifespans and enhanced vitality
- Acknowledges that people are joining the plan at later ages than in the past and won't benefit (but will pay for) early retirement enhancements

# PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
Service limit	<ul style="list-style-type: none"><li>• 35 years</li></ul>	<ul style="list-style-type: none"><li>• None</li></ul>

## Rationale:

- Addresses longevity and extended careers (member flexibility and choice)
- Allows affected members to accrue a larger pension while earning an income
- Requires additional contributions if the member works beyond 35 years

# PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
<b>Non-full-time members</b>	<ul style="list-style-type: none"><li>• Optional for non-full-time members who work 700 hours or earn 35% of YMPE (2 consecutive calendar years)</li></ul>	<ul style="list-style-type: none"><li>• Mandatory</li><li>• Member can opt out if earning less than 35% of YMPE (~\$20,000)</li></ul>
<b>NRA 60 for paramedics</b>	<ul style="list-style-type: none"><li>• Optional for police and fire</li></ul>	<ul style="list-style-type: none"><li>• Optional for police, fire and paramedics</li></ul>

## Rationale:

- Recognizes emerging workforce trends and broader DB coverage
- Helps to address Plan maturity (additional active membership)
- NRA 60 for paramedics ensures equitable treatment of affected members

- Changes are subject to 2/3<sup>rds</sup> affirmative vote
- Unlikely to be adopted before January 1, 2021
- All changes are forward looking (would not impact past service)
- Any changes would have NO IMPACT on:
  - Current retirees (and those who retire before the effective date)
  - Benefits that active members accrue (earn) up to the effective date
- For example, if conditional indexing is adopted, members would receive:
  - Full indexing for service up to the effective date, plus
  - Conditional indexing on that portion of their service following the effective date

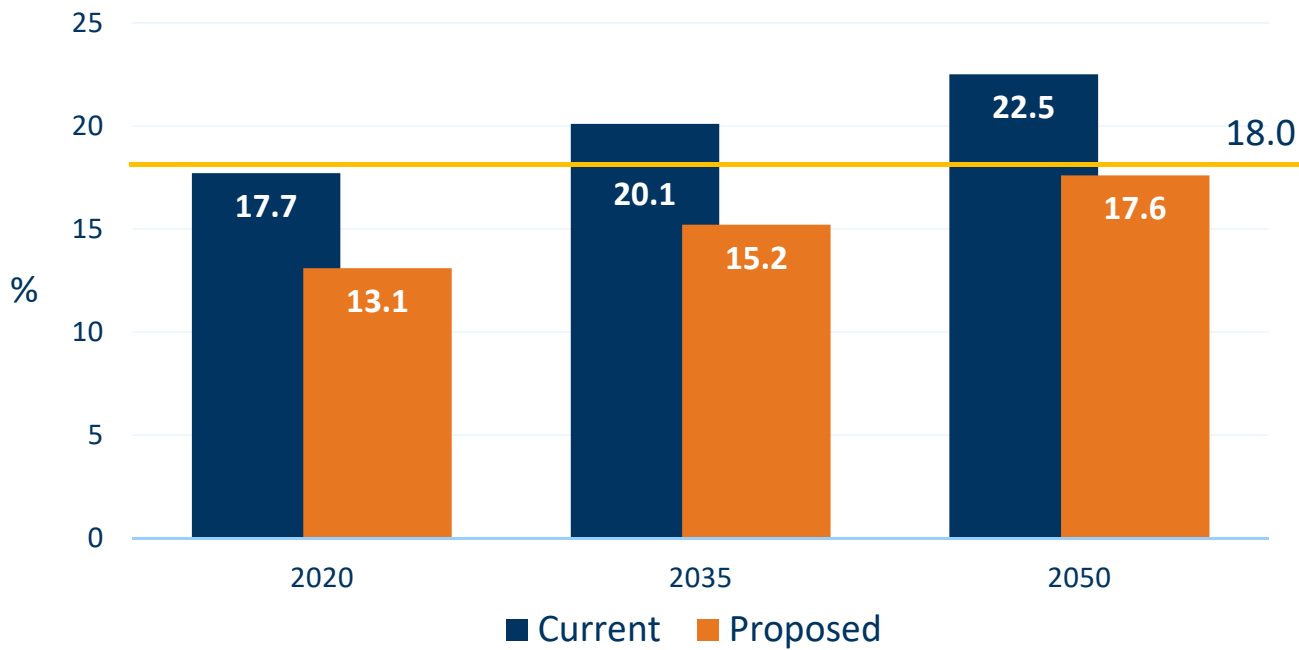


# Financial impacts (sustainability)

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# ENHANCED SUSTAINABILITY

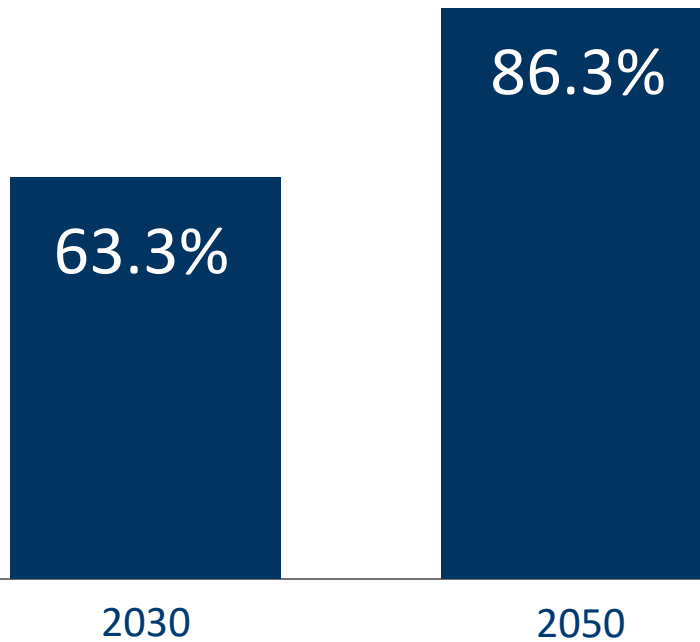
### Projected Normal Cost



- Enhances Plan sustainability
- Reduces normal cost (the cost of providing guaranteed benefits) by almost 5 percentage points circa 2050
- Provides an essential safety valve against unforeseen events
- The “savings” used to fund conditional indexing

# CONDITIONAL INCREASES

Average portion of CPI granted



- Based on the proposed changes, it's estimated that:
  - 63.3% of total indexing will be granted by 2030
  - 86.3% of total indexing will be granted by 2050
- Includes restoration of "lost" payments based on the Plan's financial health



## Long service

- Very limited impact on lifetime pension, regardless of retirement age
- Guaranteed indexing and early retirement provisions preserved for service earned prior to the amendment date

## Split service

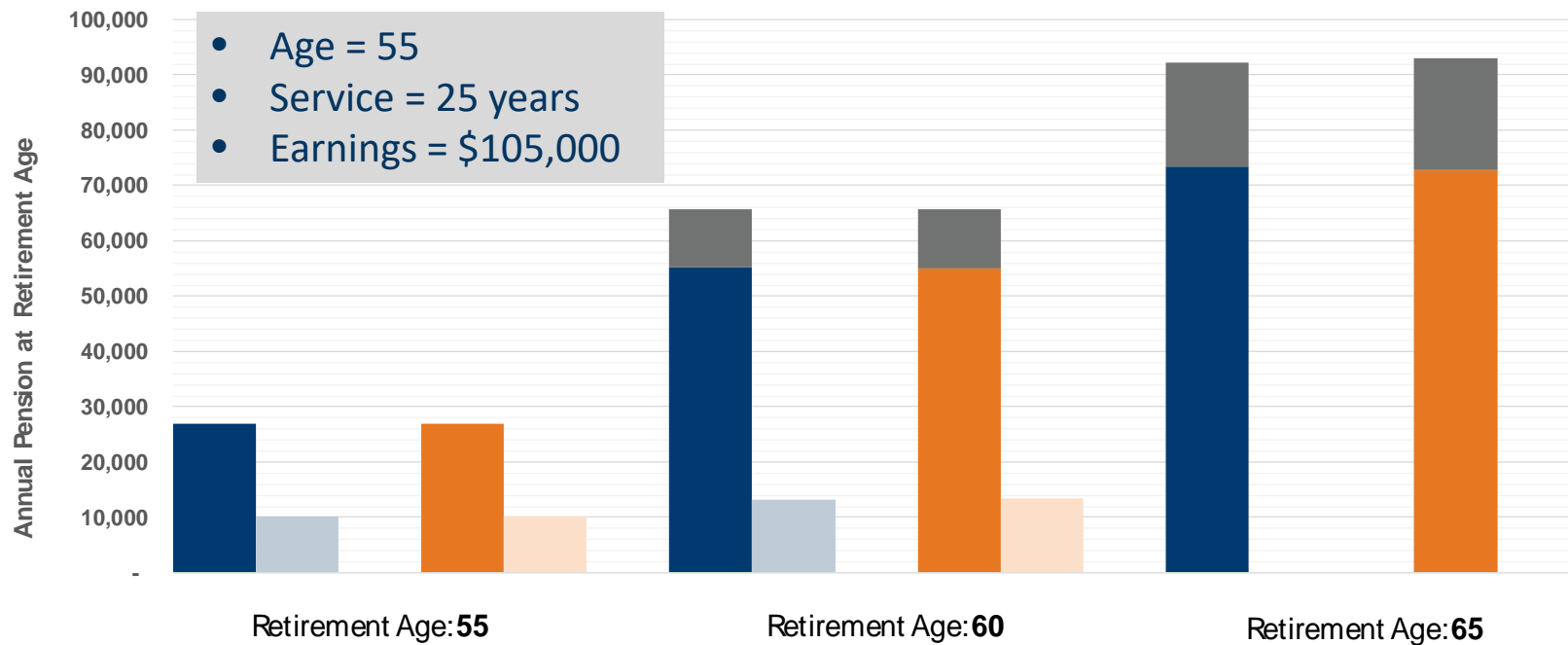
- By design, the members combined benefit is:
  - Lower at age 55
  - Higher at age 65
- Rebalancing reflects early retirement trends and focus on longevity

## Short service

- By design, the members combined benefit is:
  - Lower at age 55
  - Higher at ages 60 & 65
- Impact of the early retirement provisions is more pronounced

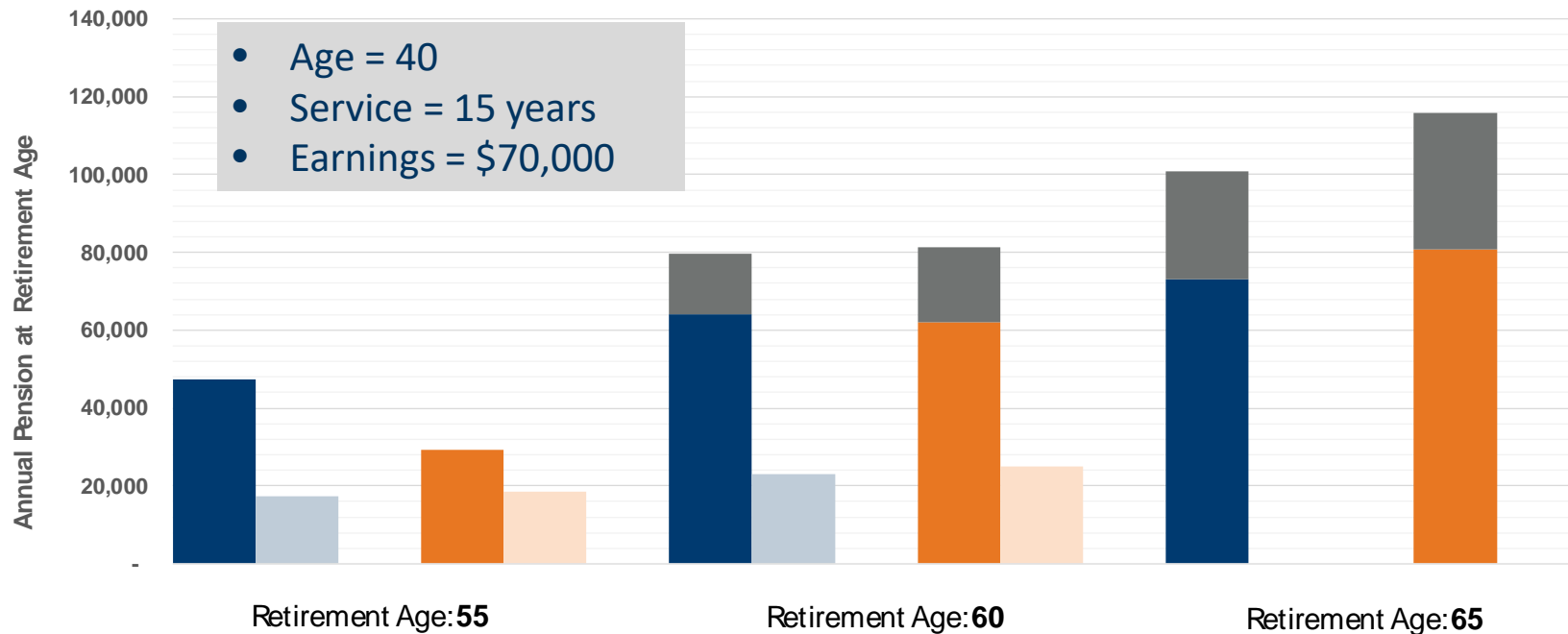
**The patterns are generally consistent, regardless of income level**

# 1. LONG SERVICE



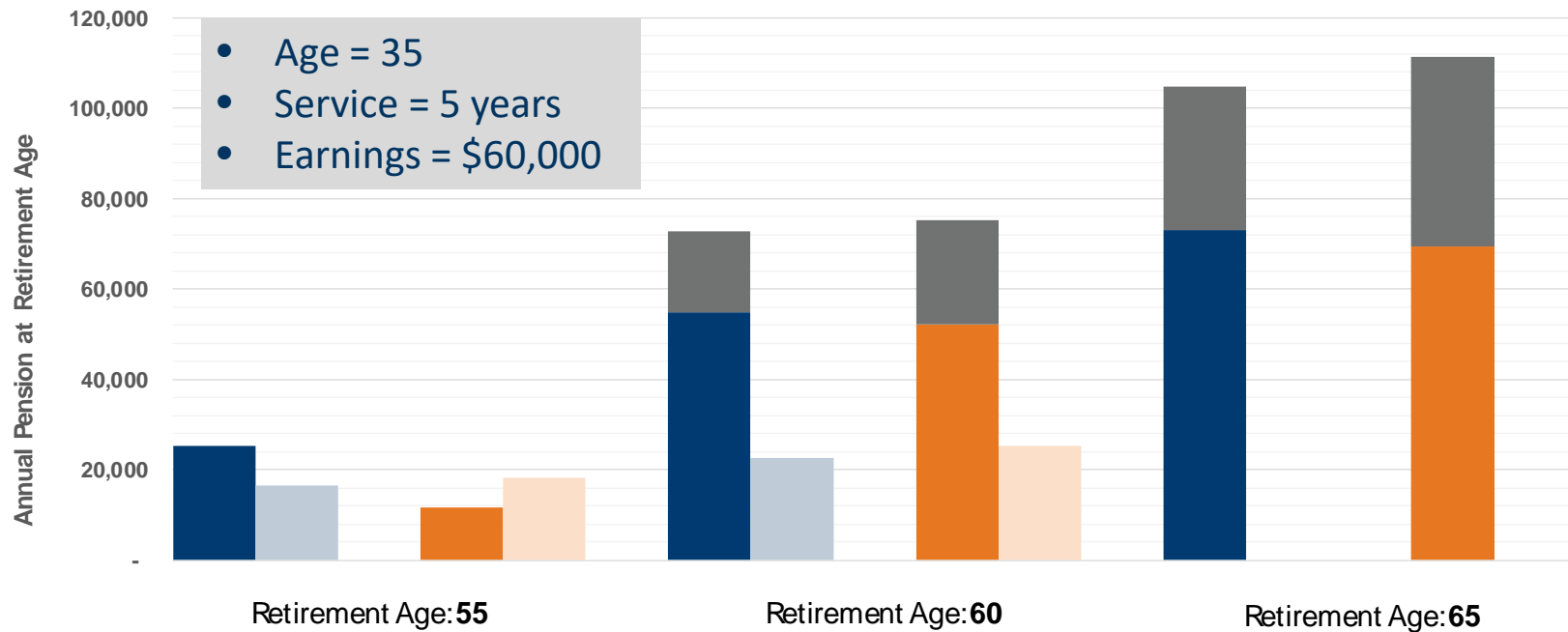
- Provides an increase at age 65 (due to the enhanced CPP)
- Guaranteed indexing and early retirement provisions preserved for pre-amendment service

## 2. SPLIT SERVICE



- By design, the members combined benefit is Lower at age 55 and higher at age 65
- Rebalancing reflects longevity and early retirement trends

### 3. SHORT SERVICE



- By design, the members combined benefit is Lower at age 55 and higher at age 65
- Rebalancing reflects longevity and early retirement trends

## RECAP

- ✓ The SC Board is responsible for assessing the Plan's health on a regular basis and proposing appropriate changes (benefits and contributions)
- ✓ Despite strong recent results, OMERS remains financially vulnerable
- ✓ Like all major pension plans, we face a number of realities (headwinds) that are beyond our immediate control
- ✓ Left unchecked, the cost of the current Plan will rise steadily over time – and substantially under some scenarios
- ✓ If adopted, the possible plan changes will dramatically improve Plan sustainability and affordability over time



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# Open discussion

Paul Harrietha  
Chief Executive Officer

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