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Council

March 1, 2006

Sheila Birrell
Clerk
Town of Markham
101 Town Centre Blvd.
Markham, ON L3R 9W3

Dear Ms. Birrell,

On February 23, 2006, Bill 206 (*An Act to revise the Ontario Municipal Employees Retirement System Act*) received Royal Assent. The new OMERS Act is expected to come into force in 2006.

The new OMERS Act replaces the government as sponsor by establishing a new OMERS Sponsors Corporation responsible for plan design and contribution rates and continues the OMERS Board as the Administration Corporation, responsible for pension administration and investments. The OMERS plan remains subject to the legal and regulatory framework applicable to registered pension plans.

As the current OMERS Board assumes its new role as the Administration Corporation, our focus on managing the Fund's investments and administering the plan will not change. We will also continue with our investment strategy, which earned a return of 16 per cent in 2005. This is important because, over the long term, investment earnings account for approximately 70 per cent of the funding for OMERS pensions. In short, we remain committed to achieving superior returns to fulfill our pension promise and providing industry leading pension services to employers, members and retirees. Nothing in this legislation changes our mandate or obligation to administer the plan in the best interests of the members.

OMERS is ready to work with the Sponsors Corporation to implement the new governance model and we are confident that we will all work together in the best interests of OMERS members. We are preparing for the transition and while we do not yet know when Proclamation will occur, we expect that there will be no disruption to our pension service levels and investment business. Pensions are, and will continue to remain, secure.

...over

I have enclosed a copy of a special notice that was recently distributed to all OMERS employers, outlining the key provisions of the legislation and what they mean in practical terms. We are also sending similar information to active, retired and deferred plan members so they may be informed on the matter. As always, more information may also be found at our website www.omers.com.

We would appreciate you sharing this letter with members of your Council. If you have any questions concerning the new OMERS Act and how it will affect you, please contact Debbie Oakley, Senior Vice President of Corporate Affairs at (416) 350-6737.

Sincerely,

David Kingston
OMERS Board Chair

Copy - John Livey
- Commissioners

OMERS

Plan for the Future

Employer Update

Number 38, 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.

"The new OMERS Act adds independent governance to the solid foundation we have built 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 the fund's 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.

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. The new OMERS Act replaces the government as sponsor with the

> 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**

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.

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.)

Decision-making protocols

The Sponsors Corporation will have the final say on important issues, including plan design 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.

During the transition period (that is, until the Sponsors Corporation passes a by-law or December 31, 2009, whichever is earlier) the Act specifies additional decision-making rules for changes related to plan design, contribution rates, and funding reserves. The Sponsors Corporation has 30 days to either accept or reject, by a two-thirds majority, changes proposed in writing by a Sponsors Corporation member. Otherwise, the Sponsors Corporation can, by a 50%-plus-one majority vote, send the issue to mediation.

The mediator then has up to 44 days after being appointed to report on the results of the mediation and make a recommendation on the proposed change. The Sponsors Corporation then has a further 30 days (from its first meeting after receiving the report) to either accept or reject the recommendation, again by a two-thirds majority. Otherwise, a 50%-plus-one majority can refer the issue to arbitration and the arbitrator's decision is binding. The new Act also sets out rules that will apply to the Sponsors Corporation's use of mediation and arbitration after the transition period.

Equal representation for 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 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 offices, firefighters and paramedics. Supplemental pension plans are separately funded, stand-alone pension plans that will offer benefits not available in the current plan. (See page 3.)

Who gets supplemental plans?

An initial supplemental plan must be established within two years for police officers, firefighters and paramedics.

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 must be negotiated

Eligible employers and members would locally bargain their participation and the benefits offered. 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 it 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 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.

Will supplemental plans be offered to other members?

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

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.

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 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.

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).

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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