

Policy Sponsor: CPO and Pensions

Summary: Sets out the principles for managing the general requirements for the preparation of actuarial valuations and any related actuarial calculations and projections of the Primary Plan. **This policy must be approved by the OAC Board.**

Contents

1. PURPOSE	1
2. DESCRIPTION OF THE PRIMARY PLAN	1
3. FUNDING OBJECTIVES	2
4. FUNDING RISKS	2
4.1 Funding Risk Management	3
5. ACTUARIAL DISCIPLINES	3
5.1 Annual Actuarial Valuation	3
5.2 Annual Actuarial Projection	4
5.3 Periodic Review of Actuarial Assumptions and Methods	4
5.4 Actuarial Analysis of Proposed Changes	4
6. RESPONSIBILITIES	5
7. COMMUNICATION	5

1. PURPOSE

As set out in the OMERS Act, and detailed in the Framework Agreement established between the OAC and the SC (the Framework Agreement), funding of the Primary Plan is a joint responsibility of the OAC and the SC. Specifically, the OAC is primarily responsible for:

- asset allocation and investment management of the Primary Plan Fund;
- providing for the actuarial valuation; and
- establishing a funding policy.

The SC is primarily responsible for:

- determining the design for benefits to be provided; and
- setting contribution rates for members and participating employers.

This Policy only addresses one of the funding elements and should be read in conjunction with:

- the Statement of Plan Design Objectives and Strategy (SPDOS) of the Primary Plan (to be established by the SC); and
- the SIP&P of the Primary Plan (established by the OAC).

This Policy sets out the principles for the preparation of actuarial valuations and any related actuarial calculations and projections of the Primary Plan, as well as the risk factors influencing future funding obligations of the Primary Plan, giving due consideration to the SC's funding objectives and the OAC's investment principles captured in the SPDOS and the SIP&P.

2. DESCRIPTION OF THE PRIMARY PLAN

The Primary Plan is:

- a registered defined benefit pension plan under the PBA and the ITA;
- a multi-employer pension plan governed by the OMERS Act; and
- a jointly sponsored pension plan (JSPP) under the PBA.

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 provides a pension benefit based on members'

annual average earnings for the highest paid 60 consecutive months and years of credited service. All pensions are indexed to the Consumer Price Index for Canada.

It is required to be pre-funded through, generally equal, contributions by members and employers, in combination with investment earnings on the Primary Plan Fund.

3. FUNDING OBJECTIVES

Pursuant to the Framework Agreement, the SC is responsible for the development of the Primary Plan SPDOS which will address the objectives of funding such as equity, sustainability and affordability of the benefit offerings. In addition, it will also capture any principles or strategic mechanisms that may be established by the SC with respect to benefit offerings, contribution rates, setting of reserves and discretionary filing. Until the SPDOS is developed, the OAC will continue to view the following as the broad funding objective of the Primary Plan:

- To provide benefit security through receipt of contributions that are reasonably priced and relatively stable and investing to earn superior returns with due regard for risk.

This view is inherent in the fiduciary responsibility of the OAC in its capacity as the administrator of the Primary Plan and is also reflected in the SIP&P of the Primary Plan.

4. FUNDING RISKS

Funding risks are assessed relative to the objectives of the Plan.

Benefit security is at risk if the Primary Plan Fund is insufficient to settle the benefits in full on the full wind-up of the Primary Plan. In this event, benefits would be reduced pursuant to section 46(2) of the Primary Plan text. A full wind-up of the Primary Plan, however, is generally viewed as highly unlikely and, as a result, benefit security is not considered to be threatened.

There remains a considerable risk in the OAC's ability to provide benefits at a reasonable cost and to avoid volatility in contribution rates. Historically, this risk (in times of rising costs and deficits) and reward (in times of surpluses) is borne by the different stakeholder groups in different manners:

	Risk	Reward
Active members	√ (increase in contributions)	√ (decrease in contributions and/or benefit improvements)
Employers	√ (increase in contributions)	√ (decrease in contributions)
Pensioners, deferred vested members and beneficiaries	X (none)	√ (benefit improvements)

The above funding risks result mainly from the following.

- Actual experience of the Primary Plan, both short-term and long-term, being different from the actuarial assumptions in areas such as investment returns of the Primary Plan Fund, inflationary increases, increases in contributory earnings, retirement experience and improvements in life expectancy.
- Maturity of the Primary Plan due to a decline in new active membership resulting from a contraction in the local governments and the broader public sectors.
- The Primary Plan continuing to be subject to the PBA solvency funding requirements even though the risk of insolvency is extremely unlikely.

4.1 Funding Risk Management

Funding risks are pooled across a large number of participating employers in the Primary Plan. This is a risk management mechanism inherent with a multi-employer pension plan. In addition to this inherent mechanism, funding risks are managed through an iterative process involving a variety of disciplines:

- Actuarial disciplines – Periodic actuarial analysis provides information about the Primary Plan's financial position and the minimum legislated funding requirements over various time horizons and under various economic and demographic scenarios.
- Benefit/Contribution disciplines – Contributions and benefits can and should be varied to influence the emerging financial position of the Primary Plan and control the emerging funding risks.
- Investment disciplines – Investment strategies and policies are developed to optimize the returns from the Primary Plan Fund given due regard to the liability structure of the Primary Plan.
- Other Strategic disciplines – These include the strategic filing of actuarial valuation results with the regulators to temporarily lock in the minimum funding requirements and the strategic deployment of surplus assets such as setting reserves.

The different disciplines must be coordinated. The results of the periodic actuarial analysis provide input to the determination of the extent of the variation of benefits and contributions. Investment returns are monitored and the corresponding investment strategies and policies are assessed periodically to determine their continued appropriateness. To the extent that any changes resulting from these disciplines are expected to modify the Primary Plan's financial status, new actuarial assessments are required, potentially triggering new considerations.

5. ACTUARIAL DISCIPLINES

Actuarial assessments must be conducted with the following basic principles:

- compliance with all relevant legislation and professional standards and requirements; and
- long-term viability of the funding objectives must not be compromised for short-term expedience.

Actuarial assessments are comprised mainly of the following four key components:

- annual actuarial valuation;
- annual actuarial projection;
- periodic review of actuarial assumptions and methods; and
- actuarial analysis of proposed changes.

5.1 Annual Actuarial Valuation

An actuarial valuation of the Primary Plan as at December 31st must be performed each year.

- The valuation must be performed on a going-concern basis and should also be performed on a solvency and a wind-up basis, if warranted.
- The going-concern valuation should be performed using the projected unit credit actuarial cost method, and the reported value of the Primary Plan Fund, either in its entirety or selected asset classes thereunder, should be smoothed over a five-year period. Alternative methods may be used to provide supplemental information if the actuary to the Primary Plan believes that the additional analysis is warranted.

- 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 the expectation in the broader economic environment. Specifically, the discount rate assumption should include a reasonable degree of equity risk premiums expected from the Primary Plan Fund. Actuarial assumptions, in aggregate, must include explicit margins for adverse deviations. The level of such margins should be allowed to fluctuate from time to time without compromising the long-term funding objectives.
- Where adjustments and actuarial techniques, such as smoothing, are allowed by legislation to be applied in conducting a solvency valuation, the OAC Board may instruct its external actuary to adopt any or all of the permitted adjustments and actuarial techniques to minimize any solvency funding requirements.

5.2 Annual Actuarial Projection

In addition to the annual actuarial valuation, a series of projections of the financial status of the Primary Plan and the associated minimum legislated funding requirements should be prepared annually. The objective of the projections is to assess the various plausible financial outcomes of the Primary Plan in the future. These projections should cover the following elements.

- Projections of the going-concern valuation results. Solvency projection results or commentaries should also be included, when viewed as a likely threat to the funding objectives.
- Projections should be performed over a meaningful time horizon, recognizing that the credibility of projection results diminishes with the length of the projection horizon. In any event, the projections must cover at least until the next required regulatory filing.
- Projections should cover different demographic and economic experience scenarios and be broad enough to cover both favourable and unfavourable experiences, with specific focus on key experiences that would have material implications to the projected financial status of the Primary Plan. Stress-testing of the Primary Plan's projected financial status should be performed by including extreme scenarios or pertinent comments.
- 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.

5.3 Periodic Review of Actuarial Assumptions and Methods

All actuarial assumptions and methods must be reviewed periodically to ensure their continued appropriateness and that sufficient margins for adverse deviations are maintained. Specifically, the discount rate and all non membership-specific assumptions should be reviewed annually in conjunction with the annual actuarial valuation. All membership-specific assumptions such as demographic assumptions and the salary increases assumption should be reviewed at least once every five years through a comprehensive experience study of the Primary Plan. The continued appropriateness of the actuarial methods should also be confirmed at least once every five years.

5.4 Actuarial Analysis of Proposed Changes

The funding impact of any potential changes to the Primary Plan, considered or proposed by the SC, must be analyzed by the OAC and the results submitted to the SC for its consideration.

6. RESPONSIBILITIES

Due to the complexity and the many inter-related elements involved in the funding of the Primary Plan, a structured approach to ensuring the execution of this Policy is required.

Specifically,

- The OAC Board is responsible for:
 - appointing the actuary to the Primary Plan;
 - approving the actuarial assumptions, methods and this Policy underlying all actuarial assessments of the Primary Plan on the advice of its appointed actuary; and
 - approving the annual actuarial valuation of the Primary Plan prepared by its appointed actuary.
- The Actuarial Services Team is responsible for:
 - preparing the annual actuarial projections, taking into consideration input from the SC, if any, regarding the projection scenarios and horizon;
 - filing the actuarial valuation with regulatory authorities, subject to SC Board direction, but in any event, no less frequently than once every three years; and
 - preparing actuarial analysis on any proposed changes to the Primary Plan.

Pursuant to the Framework Agreement, the OAC may seek clarification from the SC regarding its design and funding objectives with respect to the Primary Plan. Any clarification provided by the SC must be reflected in the next update to this Policy.

7. COMMUNICATION

This Policy must be posted on the OMERS website making it available to members, employers, trade unions, associations and other interested parties to the Primary Plan. Pursuant to the Framework Agreement, the Actuarial Services Team will advise the SC of any updates to this Policy for information.

HISTORY

Effective Date: October 22, 2009
Approval Dates: August 22, 2003, September 22, 2006, October 22, 2009
Next Scheduled Date for Review: October 2012