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Mr. Tony Dean
OMERS Governance Reviewer
c/o Ministry of Municipal Affairs & Housing
Government of Ontario
17th Floor, 777 Bay Street
Toronto, ON M5G 2E5

**Re: 2012 OMERS Governance Review**

Dear Mr. Dean,

Thank you for your invitation to meet on Tuesday, July 31st. Our open and frank discussions on this issue are important to ensuring OMERS continued success for plan members and sponsors.

You asked for input from the Sponsors Corporation Board (SC), and we are pleased to respond. This letter reflects the unanimous views of the SC on this important issue. Sponsors will likely respond directly with their views and comments.

The SC is committed to the concept of "One OMERS". Both the SC and the OMERS Administration Corporation (OAC) have made excellent progress in a few short years in working collaboratively toward that concept and, in our view, we must continue to do so.

We support excellence and best practices in governance. However, we want to emphasize that OMERS is first and foremost a jointly sponsored pension plan accountable to many and varied stakeholders. The associated governance structure and parameters differ from governance typically found in the corporate world.

OMERS bi-cameral governance model reflects the Province's desire to devolve responsibility to plan participants and the desire of stakeholders to control their own pension plan. It was central to the process that led to the *OMERS Act, 2006*, and has the support of plan sponsors. In fact, we have recently heard directly from many of the sponsors, including AMO, CUPE, PAO and OAPSB, stating very clearly that they support the current governance structure.

Our governance structure embodies the six principles recommended by OMERS in 2006, and the *OMERS Act* reinforces these principles. They are as relevant today as in 2006:

- Alignment of ownership and control;
- Clear separation of sponsor and fiduciary functions;
- Balance between employer and employee interests;
- Accountability to members and employers;
- Exclusivity; and
- Best governance practice.

The bi-cameral model has contributed to OMERS success and ensures decisions are in the best interests of sponsors and members – those who pay into the plan.

The current division of authorities in the *OMERS Act* ensures the sponsors have oversight and influence in matters of strategic importance with a series of checks and balances in the system. This requires that the SC and OAC work together to determine the most appropriate strategic direction to meet the needs of plan members and sponsors. This notion speaks to the importance of the upcoming SC and OAC September Strategic Planning Session.

The two boards have spent considerable time and effort on the matter of growth, both capital and membership. In this context we note that a fiduciary is responsible for ensuring that beneficiaries receive the benefits promised, and that assets are invested in a reasonable and prudent manner. The fiduciary framework does not dictate a particular approach to the question of growth or investment. Pension plans with the same fiduciary obligations will approach these issues in different ways. The sponsors responsible for the plan should have oversight and responsibility for determining its overall direction in this regard.

Decisions with respect to the type of membership and asset growth are significant decisions that, for OMERS, must be made through discussions between both organizations so that opportunities are identified, concerns addressed and appropriate opportunities pursued. Professor Harry Arthurs noted in his report (on OMERS internal governance) that there was no evidence that the current configuration or processes have resulted in delays harmful to OMERS or plan members nor has the SC been provided with any evidence that this is the case. In our view, solutions to any potential issues could be addressed within the existing framework.

The current OMERS bi-cameral model creates balance by providing employees and employers with a forum to sort out differences while freeing up the OAC to focus on its responsibilities. In this regard, the SC has made significant decisions regarding a three year funding plan to address the deficit comprising contribution and benefit changes, approved a strategic Statement of Plan Design Objectives and Strategy to guide decisions on contributions and benefits, resolved the methodology for determining contribution rate allocations and established a tentative framework for approving OMERS Investment Management investment agreements.

While it is unlikely that legislation can provide absolute clarity on roles and responsibilities, it is our view that there is very little overlap as the OAC and SC have distinct responsibilities under the legislation. Where insufficient clarity exists, it has been necessary to work through the implications and practical application in order to operationalize the intent of the legislation. The SC and OAC, together, have made steady and considerable progress in addressing our distinct governance roles and responsibilities and the shared space between, as evidenced by the Archibald decision and the Framework Agreement.

Some sponsors have enquired about the cost of the bi-cameral model. There is a cost to providing sponsors with a "say for pay"; a fundamental principle in devolution. The number of meetings and expenses associated with this model are not a measure of success or failure in and of themselves. The SC itself accounts for less than 1% of the total cost/expenses required to run the pension plan. (In 2011, OMERS Pension Administration expenses were $59M, and Investment expenses were $279M for a total of $338M. This includes OAC staff time and costs required to support the SC – most of which would be required regardless of structure. The SC direct costs were approximately $2M). In the SC's view, the cost associated with OMERS governance structure is small in relation to the overall operating costs of the plan and when compared to the benefit achieved for plan members and sponsors.

The governance structure of other peer plans shows that each is structured differently and the respective roles and responsibilities of the sponsors and trustees vary accordingly. OMERS is unique in that it has many different kinds of stakeholders and its governance structure reflects the needs of this diverse group.

The current composition and appointment process for both boards ensures alignment of ownership and control, balance between employer and employee interests, as well as accountability to members and employers. The SC Corporate Governance Committee is currently reviewing and addressing the composition and appointment process of both the SC and OAC boards with the intent of bringing forward a recommendation to the SC Board shortly. We recognize that ongoing engagement of the unrepresented members is a key concern for many stakeholders.

With regard to the nomination and appointment of OAC board members, we note that many jointly sponsored pension plans have sponsors that directly appoint the trustees of the pension plan. This provides direct linkage between sponsors and the board while at the same time enhancing transparency. In submissions regarding the SC and OAC Board composition and appointment process, the sponsors have been clear in their desire to retain their authority as this is fundamental to ensuring accountability to members and employers.

The SC is of the view that, rather than changing our governance at this stage in our evolution and development we need to continue and redouble our efforts to work within our existing structure and framework.

Professor Harry Arthurs, experienced in pension plan governance, noted that OMERS bi-cameral model has contributed to OMERS success and should be retained. Furthermore, he noted that many of the issues and concerns of each organization can be addressed within the existing legislation. In the few short years this governance structure has been in place, both the OAC and SC have made tremendous progress in making the model work for plan sponsors and members. A review of alternate governance structures shows that no one model is perfect. Each brings its own benefits and challenges. We believe that the OMERS model benefits its stakeholders and plan members.

We look forward to ongoing engagement and dialogue as you continue with your review. If there is any further information or support we can provide to assist you in your review, please do not hesitate to contact us or our CEO, Deb Preston, at 416-814-6575.

Yours truly,

Marianne Love
Co-Chair
OMERS Sponsors Corporation

Brian O'Keefe
Co-Chair
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cc: Rick Miller, Chair, OMERS Administration Corporation