OMERS **Sponsors Corporation**
Statement of Plan Design Objectives and Strategy

Policy Sponsor: OMERS Sponsors Corporation

Contents

1. INTRODUCTION

The OMERS Sponsors Corporation (the "SC") is a corporation established under the OMERS Act 2006 (the "OMERS Act"). As set out in the OMERS Act, and detailed in the Framework Agreement established between the OMERS Administration Corporation ("OAC") and the SC, funding of the OMERS Primary Pension Plan (the "Primary Plan") is a joint responsibility of the OAC and the SC. Specifically, the SC is responsible for making decisions about the design of and the amendments to the Primary Plan, setting contribution rates, establishing any stabilization reserves and making decisions on such other issues consistent with the terms of the OMERS Act. The OAC is primarily responsible for asset allocation and investment management of the Primary Plan fund, providing for the actuarial valuation, establishing a funding policy and administering the Primary Plan.

This Statement of Plan Design Objectives and Strategy ("Statement") only addresses one of the funding elements and should be read in conjunction with the following documents established and approved by the Board of OAC:

- the Primary Plan Funding Policy; and
- the SIP&P of the Primary Plan.

This Statement sets out the methodology for determination by the SC of the contribution rates for members and participating employers, the design of benefits of the Primary Plan and the establishment of reserves there under, giving due consideration to the two aforementioned documents and OAC's duties as the administrator of the Primary Plan. This Statement is not intended to apply to the OMERS Supplemental Plan for Police, Firefighters and Paramedics ("Supplemental Plan") or the Retirement Compensation Arrangement for the OMERS Primary Pension Plan ("RCA"), which are both separate and distinct OMERS pension plans, and will be the subject of future separate Statements approved by the SC at such time, or times, as considered advisable by the SC, but in respect of the RCA, no later than June 30, 2012.

On November 5, 2009, the SC adopted the following statement of the best interests of the Corporation:

> *"The best interests of the OMERS Sponsors Corporation ("SC") include governance and decision-making practices which support the health and long-term viability of the jointly-sponsored OMERS pension plans, and give due consideration to the interests of the stakeholders and other relevant circumstances*."

The SC recognizes that the development of this Statement and its attendant decision making practices are in the best interests of the SC. Adherence to the methodology enunciated in this Statement will provide stability and assist in focused and expedited decision-making within the timeframes set out by the OMERS Act and the PBA.

2. DESCRIPTION OF THE PRIMARY PLAN

The Primary Plan is:

- a registered defined benefit pension plan under the PBA[1] and the ITA[2];
- 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.

The Primary Plan 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

The primary objective of the SC with respect to the Primary Plan is to ensure the continuing health and long term viability of the jointly-sponsored pension plan. To meet this objective, the SC considers the appropriate balance between competing funding objectives, particularly with respect to such concepts as equity, sustainability, security of benefits including the pension promise, and cost.

The concept of equity raises a number of competing objectives for the SC. Given the size of the Primary Plan, the number of groups represented, the number and variety of contributing employers and members, and the potential impact that plan design and contribution decisions can have on current and future participants in the Primary Plan, the SC must give due consideration to the impact that each of its decisions have on the equities that exist between:

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[1] *The Pension Benefits Act of Ontario, and the regulations applicable thereto, all as amended from time to time.*

[2] *The Income Tax Act, and the regulations applicable thereto, all as amended from time to time.*

- employers and members;
- classes of members; and
- generations.

While maintaining the equitable balance across each of these groups is an objective of the SC, it should be noted that absolute equity can never be achieved either because it is an inevitable consequence of the risk-pooling nature of a defined benefit plan or because of the given circumstances and the nature of the changes under consideration.

Cost and benefit security are also important competing objectives for the SC. Ideally, all benefits under the Primary Plan can be maintained without impacting affordability for all participants. However, this may not be consistently the case over the life of the Primary Plan. As circumstances change, the SC will need to reconsider the appropriate balance between these two competing objectives.

A corollary objective to cost and benefit security is limited volatility. While contribution and benefit changes will occur from time to time depending on prevailing circumstances, it is an objective of the SC to limit the year over year impact of such changes where reasonable. Limited volatility may impact intergenerational equity but, at the same time, provides better budgeting/planning and funding clarity for both employers and members.

This Statement is intended to provide broad guidelines only and is not intended to cover all decision points required in order to achieve the funding objectives and targets of the Primary Plan.

4. FUNDING TARGET

The PBA outlines the minimum standards for the assessment and funding of pension plan obligations. The funding target for the Primary Plan shall be to maintain, over the long term, a going-concern funded ratio (specifically, the ratio of the smoothed value of assets to the going-concern actuarial liability of the Primary Plan) of 100%. Contributions to attain the funding target shall be determined by the SC from time to time, but in any event, shall be no less than required by applicable legislation.

5. MECHANISMS TO ACHIEVE OBJECTIVES

The annual business cycle for the SC includes protocols for the annual review of the funded status and projected contributions for the Primary Plan in accordance with Touchpoint 5 of the Framework Agreement, and continues with a process for consideration of benefit design and contribution proposals pursuant to By-Law #12, enacted November 6, 2008.

Pursuant to Touchpoint 5 of the Framework Agreement, the OAC prepares an annual valuation report of the Primary Plan (“Annual Valuation”). The Annual Valuation, and any minimum funding requirements, are to be delivered to the SC by the OAC by no later than +/- March 1 of each year. In addition, a projection valuation, along with non-binding and confidential options and recommendations are also to be provided to the SC.

Following delivery of the Annual Valuation and projections, By-Law #12 of the SC provides a detailed protocol for review and discussion of specified plan change (”SPC”) proposals for OMERS pension plans. An SPC is described as:

- a change in benefits for members of any of the OMERS pension plans;
- a change in the contribution rate for members or participating employers; or
- the establishment of, or a change to, a reserve to stabilize contribution rates.

Pursuant to By-Law #12, SPC proposals may be tabled by any Member of the SC at any meeting of Members held between March 1 to May 1 each year (inclusive), provided such meeting shall not occur within 10 days of receipt of the Annual Valuation from the OAC. As soon as practical following May 14th each year, the Co-Chairs of the SC shall prepare and deliver a compendium of all SPC proposals tabled during the immediately preceding March 1st to May 1st. Thereafter, By-Law #12 provides a mechanism for consideration of the various proposals included in the compendium, as well as a dispute resolution procedure in the event the Members of the SC wish to utilize such a process.

The combination of Touchpoint 5, together with By-Law #12, provides the structure for the SC to systematically review the status of the Primary Plan and a vehicle to ensure that all options are considered regarding the funding objectives and funding target. During the deliberations of the various proposals contemplated and mandated by By-Law #12, the Members of the SC will give due consideration to the multiple competing objectives for the Primary Plan and shall comply with the following*:*

i) Deficit Management: When an Annual Valuation of the Primary Plan indicates a going-concern funding deficit (i.e., a going-concern funded ratio, based on the smoothed value of assets, of less than 100%) in a year when an Annual Valuation is to be filed, the SC shall implement the Deficit Management measures to the Primary Plan set out in this section. Such measures are intended to be implemented through increases to the contribution rates and reductions to the benefits in accordance with the following table. Changes to contribution rates and benefits can be either temporary or permanent, but the overall impact on contributions must be consistent with the following table as determined by the Primary Plan’s actuary. Contribution rates will first be increased until the total annual blended contribution rate (employers and members combined) exceeds 19.5% of contributory earnings. Thereafter, benefit reductions will be implemented at an increasing rate to mitigate the increase in contribution rates as follows:

Total annual contribution rate[3] **(employers and members combined)**	**Benefit Reduction**
A total blended rate of less than 19.5%	No changes to benefits
A total blended rate of 19.5% or more but less than 21.5%	Approximately 32.5% of the "funding" above 19.5% to be met through benefit reductions until the blended contribution rate reaches 21.5%
A total blended rate of 21.5% or more but less than 24.0%	Approximately 42.5% of the "funding" above 21.5% to be met through benefit reductions until the blended contribution rate reaches 24%
A total blended rate of 24.0% or more	Approximately 50% of the "funding" above 24.0% to be met through benefit reductions

Administrative practicalities, in terms of the lead time required to implement any benefit changes and the materiality of the benefit changes, should be considered by the SC during its annual review of SPC proposals pursuant to By-Law #12.

Changes that are stated to be "temporary" shall remain in effect until an Annual Valuation indicates the going-concern funded ratio (based on smoothed value of assets) has returned to 100% or above. At that time, before any other measures are implemented, benefits will be restored prospectively to the levels before the temporary reductions were implemented and, concurrently, the contribution rates will be set to levels which, based on the Annual Valuation, generally reflect the normal cost of the Primary Plan. Thereafter, the SC shall proceed to Surplus Management under paragraph 5(ii) or Reserve Management under paragraph 5(iii) below.

For greater clarity, the changes implemented by By-Law #19 previously approved by the SC prior to formal approval of this Statement have been determined to be temporary changes and shall be treated as such in accordance with this provision.

ii) Surplus Management: When an Annual Valuation indicates a going-concern funded ratio (specifically for the purpose of Surplus Management here under, to be based on the lower of the smoothed value or the market value of assets) greater than 110%, in a year when an Annual Valuation is to be filed, the SC shall implement the Surplus Management measures to the Primary Plan set out in this section. Such measures are intended to be implemented through a combination of decreases to contributions and increases to benefits subject to the following:

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[3] *Contribution rates comprise of two components:*

(i) Normal cost rates which, based on actuarial advice received by the SC, generally reflect the normal cost (or current service cost) of the Primary Plan; and

(ii) Rates over and above the normal cost rates which are used for the purpose of deficit funding.

- All Surplus Management measures are split equally between decreases to contributions and increases to benefits;
- All Surplus Management measures are effective for an agreed temporary period of time of no more than 3 years ("Window") unless there is an agreement to make the changes permanent;
- No Surplus Management measures are allowed if, after the implementation of the measures, the going-concern funded ratio (as defined here in paragraph 5(ii)) is expected to drop below 106.25%;
- The term "increase to benefits" shall not include the retroactive repayment of benefits lost during a period of Deficit Management, which shall be treated in accordance with the Reserve Management provisions of paragraph 5(iii) of this Statement.

Administrative practicalities, in terms of the lead time required to implement any benefit changes and the materiality of the benefit changes, should be considered by the SC during its annual review of SPCs pursuant to By-Law #12.

All changes pertaining to Surplus Management measures that are stated to be "temporary" shall remain in effect (unless altered by a subsequent SPC approved by the SC in accordance with By-Law-#12) during the Window or, if earlier, until an Annual Valuation indicates the going-concern funded ratio (based on the lower of the smoothed value or the market value of assets) has dropped to 106.25% or below. Any Surplus Management measures shall be automatically renewed for a further Window if, after the renewal of the measures, the going concern funded ratios (as defined here in paragraph 5(ii)) is not expected to drop below 106.25%. If the Annual Valuation discloses a going concern funded ratio below 106.25%, the SC shall proceed to Reserve Management under paragraph 5(iii) below or Deficit Management under paragraph 5(i) above. At that time, before any other measures are implemented, benefits will be restored prospectively to the levels before the temporary increases were implemented and, concurrently, the contribution rates will be set to levels which, based on the Annual Valuation, generally reflect the normal cost of the Primary Plan.

iii) Reserve Management: When an Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) of between 100% and 110% inclusive, contributions to the Primary Plan must continue at rates which, based on the Annual Valuation, generally reflect the normal cost of the Primary Plan, and no benefit changes shall be implemented other than as set out in paragraph 5(i) and this paragraph 5(iii). When the Annual Valuation indicates both a going concern funded ratio (based on smoothed value of assets) in excess of 105%, and compliance with subsection 15(1) of the OMERS Act, any benefits reductions that were stated to be "temporary" during Deficit Management, shall be retroactively restored, or equivalent value shall be used by the SC to provide alternate equivalent benefits, all to the extent permitted by law and the funded status of the Primary Plan. Following retroactive reinstatement as indicated in the preceding sentence, Reserve Management shall continue until an Annual Valuation indicates the going-concern funded ratio (based on smoothed value of assets) has exceeded 110%. Thereafter, the SC shall proceed to Surplus Management hereunder.

iv) Allocation of Contribution Changes: All contribution rate changes shall be allocated across NRA60 and NRA 65 groups, and earnings above and below YMPE, in a reasonable and fair manner, taking into consideration the normal costs of benefits attributed to such groups. A contribution rate study shall be undertaken every 3 to 5 years to ensure that the allocation to each group remains reasonable and fair. Any additional funding on account of Deficit Management or reduction in contributions on account of Surplus Management will be reasonably allocated to each group based on their relative share of the total liability in the Primary Plan.

v) Voluntary Filing of Annual Valuations: Annual Valuations will not be filed annually, unless required by statute or specifically authorized by the SC in accordance with By-Law #12.

vi) Election to Opt-Out of Grow-In: At the earliest available opportunity, the SC shall cause the OMERS pension plans to opt out of the grow-in provision under the PBA and will ensure compliance with any process prescribed for effecting such opt out.

Notwithstanding the methodology provided herein, this Statement does not affect the existing terms of the OMERS pension plans, and does not create a formal amendment to the OMERS pension plans. No changes to benefits and/or contributions results solely from application of this Statement. All decisions made by the SC with respect to changes to benefits and/or contributions, either resulting from the application of this Statement or otherwise, must be enacted in accordance with SC By-Laws, and must otherwise comply with the requirements set out under the ITA, PBA, the OMERS Act and any other relevant legislation and regulations.

6. DEFAULT MECHANISM

In the event that SPCs implementing actions required by paragraphs 5(i) or 5(ii) are not passed in a year in which an Annual Valuation is required to be filed, the matter shall be referred to non-binding mediation. The mediator shall be selected by the Co-Chairs in accordance with the provisions of By-Law #12 relating to the selection of an arbitrator thereunder.

7. MONITORING

The funded status of the Primary Plan is reviewed on an annual basis and potential contribution or benefit changes are also considered annually. As a consequence of this annual review process, the SC may elect to file the actuarial report more frequently than required by the PBA.

In accordance with Touchpoint 2 of the Framework Agreement, the SC will review and update/confirm this Statement annually.

8. COMMUNICATION

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

HISTORY

Effective Date:	January 1, 2011
Last Approved by Board:	January 27, 2011
Next Review:	1 year

January 27, 2011
Attached to By-Law #20