

MANAGING THE PRIMARY PLAN FROM DEFICIT TO SURPLUS

OMERS Sponsors Corporation Statement of Plan Design Objectives and Strategy

The OMERS Sponsors Corporation approved, in principle, the *Statement of Plan Design Objectives and Strategy* at its meeting in December 2010. Formal approval was given at the board meeting of OMERS Sponsors Corporation on January 27, 2011. The statement provides a structure for the OMERS Sponsors Corporation to make decisions when the Primary Plan cycles through periods of funding deficit and surplus. It is the responsibility of the OMERS Sponsors Corporation, which is made up of equal representation from members and employers, to decide when it's appropriate to change benefits, adjust contributions rates or some combination of both.

The *Statement of Plan Design Objectives and Strategy* fulfills a commitment made by the OMERS Sponsors Corporation in 2010 to develop and document protocols and methodology for future Plan decision making.

Who oversees the OMERS Plan?

The governance of the OMERS Primary Pension Plan is shared by the OMERS Sponsors Corporation and the OMERS Administration Corporation. These two bodies have separate and distinct responsibilities. The OMERS Sponsors Corporation is responsible for Plan design including adjustments to benefit provisions, setting contribution rates and establishing or changing a reserve to stabilize contribution rates.

The OMERS Administration Corporation is responsible for pension services, preparation of the valuation, establishing investment and funding policies, asset allocation and investment management of OMERS Pension Plans assets.

The OMERS dual governance structure was established through the *OMERS Act 2006* and the Plan is required to be pre-funded through contributions from employers and employees and through investment earnings on the assets of the OMERS Fund.

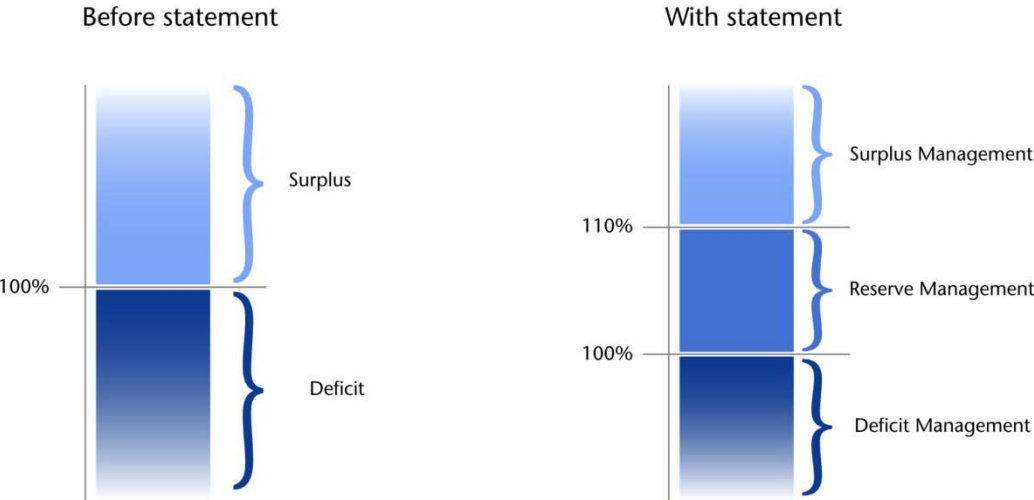
What are the funding objectives?

The central objective of the OMERS Sponsors Corporation is to help ensure the continued health and long-term viability of the Plan. In order to meet this objective, the OMERS Sponsors Corporation makes decisions that balance the concepts of equity, sustainability, security of benefits and costs.

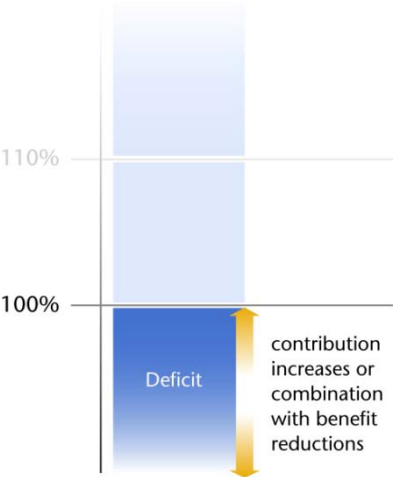
With regard to equity, the OMERS Sponsors Corporation considers its decisions in light of the impact they have on current and future generations of members and employers.

In fulfilling its responsibilities, the OMERS Sponsors Corporation thinks of the fund as existing on one of three broad areas of a continuum:

- Deficit management – when the Plan is less than 100% funded and the contribution rate must be increased and potentially benefits reduced;
- Reserve management – when the Plan is more than 100% funded, but less than 110% and any past benefit reductions are reinstated and contribution rates reflect the cost of future benefits;
- Surplus management – when the Plan is more than 110% funded and benefits can be improved and contribution rates reduced.

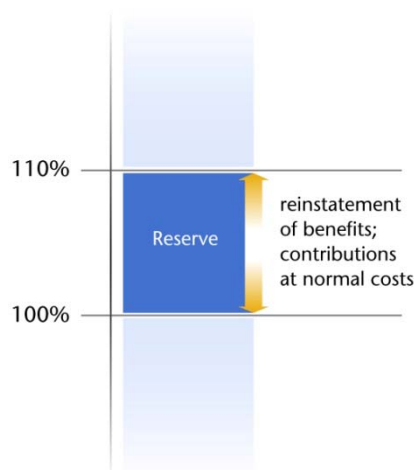


Deficit management – less than 100% funded



The statement prescribes a measured approach to funding a deficit. The approach is in keeping with the OMERS past practice of using contributions to fund a deficit, but recognizes that contribution increases alone may create an unreasonable financial burden. Depending on funding requirements, contribution increases may be accompanied by benefit reductions – the larger the deficit, the greater the likelihood that some benefits will be reduced. The amount of the contribution rate increases is tied to the size of the deficit as determined by a funding valuation.

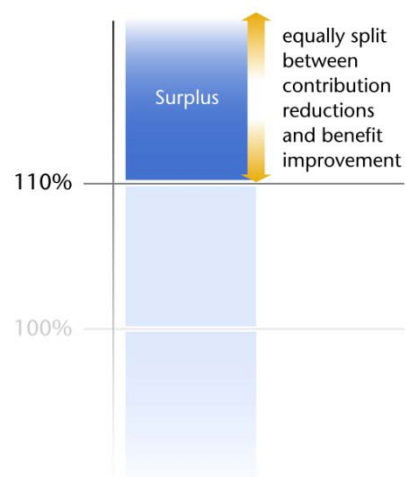
Reserve management – 100% to 110% funded



When the Plan reaches more than 100% funded, benefits that had been temporarily reduced to manage a deficit will be reinstated on a go-forward basis. As well, the contribution rate will be reduced to reflect the normal cost of future benefits.

When the Plan reaches more than 105% funded, any benefit (or equivalent) that had been temporarily reduced to manage a deficit will be retroactively reinstated before any new benefit improvements can be made.

Surplus management – more than 110% funded



Under the *Statement of Plan Design Objectives and Strategy*, enhancements to the OMERS Primary Pension Plan can be considered when the Plan is more than 110% funded.

Surplus management measures are applied:

- Equally split – enhancements are divided between benefit improvement and contribution reduction;
- Temporary – enhancements (unless specifically designated as permanent) are for a period of no more than three years, but are automatically renewed if it can be sustained within the parameters set out in the *Statement of Plan Design Objectives and Strategy*.

When funding levels fall below a level of sustainability, the benefit improvements cease and contribution levels will be restored to reflect the cost of benefits provided under the OMERS Primary Pension Plan. At this point the Plan returns to the reserve management zone.

Temporary rate and benefit changes approved earlier this year

OMERS Sponsors Corporation approved a temporary three-year contribution rate increase for both members and employers, beginning in 2011. They also approved changes to the calculation of benefits members receive if they terminate employment before they're eligible for an early retirement pension – this only affects benefits based on service earned *after* 2012.

The changes were undertaken as a temporary measure to support the funded security of the OMERS Primary Plan and are needed to offset nearly \$5 billion of net losses which will be added to the Plan's balance sheets over the next four years – mostly from the 2008 global market downturn. With interest on the deficit and other cost factors, the funding deficit for the Primary Plan was expected to reach \$8.5 to \$12 billion by 2012.

The *Statement of Plan Design Objectives and Strategy* fulfills a commitment made by the OMERS Sponsors Corporation at the time of these temporary measures to develop and document protocols and guidelines for future Primary Plan decision making.

Difference between the Statement of Plan Design Objectives and Strategy and the Specified Plan Change process

The *Statement of Plan Design Objectives and Strategy* provides structure to determine the Plan design for benefits and setting contribution rates during periods of deficits and surpluses. No changes to benefits and/or contributions results solely from the application of the *Statement of Plan Design Objectives and Strategy*. All decisions made by the SC with respect to changes to benefits and/or contributions must follow the Specified Plan Change process outlined in By-law #12.

Suggested further reading:

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

OMERS Member News, Number 89, Summer 2010

OMERS Employer News, Number 52, Fall 2010