AMO Communications
<communicate@amo.on.ca>
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To "ravis@fort-frances.com" <ravis@fort-frances.com>
cc
bcc
Subject MEPCO OMERS UPDATE

TO THE IMMEDIATE ATTENTION OF MEPCO MEMBERS

June 28, 2013

For the information of MEPCO members, we are attaching an OMERS update on the 2013 Specified Plan Change proposals.

PLEASE NOTE AMO Breaking News will be broadcast to the member municipality's council, administrator and clerk. Recipients of the AMO broadcasts are free to redistribute the AMO broadcasts to other municipal staff as required. We have decided to not add other staff to these broadcast lists in order to ensure accuracy and efficiency in the management of our various broadcast lists.

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MEPCO
MUNICIPAL EMPLOYER
PENSION CENTRE ONTARIO

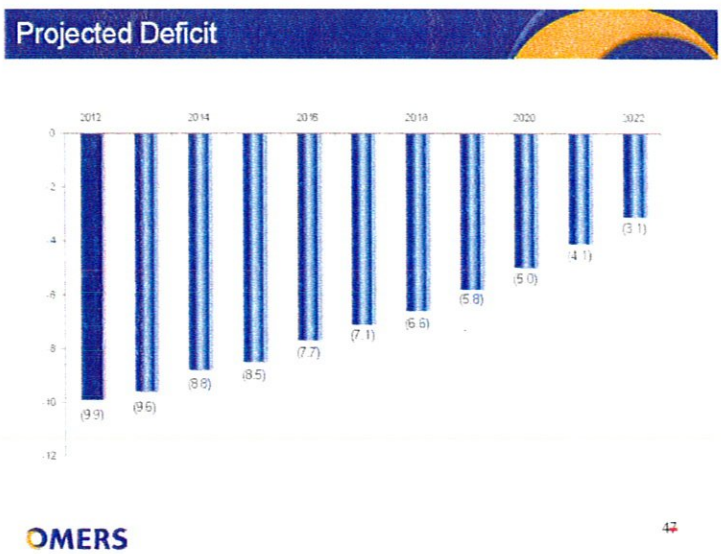
OMERS Update – June 28, 2013

Necessary OMERS Benefit Reductions Fail to Pass

MEPCO is disappointed that meaningful, and measured benefit reductions proposed by MEPCO/AMO in collaboration with other employer sponsors have failed. At its meeting on June 25, the Sponsors Corporation (SC) Board completed its consideration of the 2013 Specified Plan Change (SPC) proposals and did not approve any specific plan changes that would contribute to the Plan's sustainability and affordability.

Proposed employer sponsor changes included, on a prospective basis, a reduction to indexing by 50 per cent for a period of time, a higher reduced benefit for those who elect to retire 5 years prior to their normal retirement age as well as a reduction to the benefit accrual rate in the pension formula from 2.0% to 1.85%. [1] These proposals were designed to relieve pressure on the high combined contribution rate which has reached a blended rate of 21.3%. Contribution rates for both employers and employees have increased 40% over 5 years. These three Plan change proposals would also help address some of the inter-generational impacts anticipated in the future with few new members supporting a larger cohort of retired members. Regrettably, these proposals failed to achieve the two thirds majority required of the SC for approval.

On the positive side, employee sponsor proposals to move police civilians and paramedics into NRA 60 failed. Both proposals would have added costs to employers that have their own police services and that provide ambulance services as well as add new liabilities to the Plan.



Why is it important to confront the sustainability of OMERS now?

The Plan's current actuarial deficit of $10 b is not projected to diminish until 2022 (to $3.3 b). To achieve this reduction, OMERS must have an investment return of at least 6.5% annually. It also assumes no change to current demographic assumptions. MEPCO holds that there is a risk to relying on these assumptions. If they are not met, the Plan's liabilities will increase further and even more drastic actions will be needed.

[1] For SPC technical information go to: http://www.omerssc.com/PlanChanges/4783.aspx.

200 University Ave, Suite 801 www.mepco.ca Tel 416.971.9856 ext. 350 Toll Free in Ontario
Toronto, ON, M5H 3C6 mepco@mepco.ca Fax 416.971.6191 877.426.6627

MEPCO/AMO and other employer sponsors are disappointed that the SC Board could not support reasonable temporary, prospective benefit decreases like the indexing reduction. It would have reduced the current blended contribution rate of 21.3% to about 19.7% and reduced the Plan's liabilities. In addition, it would have transferred some of the indexing costs to a later period when the Plan was in better condition.

This failure to move on any path to take pressure off contribution rates and to reduce the Plan's actuarial deficit faster clearly sets the OMERS Plan apart from other Ontario jointly sponsored public pension plans like Teachers and HOOPP. These Plans have taken even more significant steps to take the pressure off future contribution rate increases as they consider Plan sustainability.

MEPCO/AMO remains firmly committed to ensuring OMERS Plan sustainability. It will continue to advocate actions to secure sustainability and seek protection from unnecessary future contribution rate increases and ways to reduce these rates which are a drain to both employers' budgets and employees' paychecks.

All the proposals as summarized below if you missed our previous communications.

Employer sponsors formulated a proposal that would take effect in 2016. It would prefund 50% of indexing (CPI rate) for future service and would reduce the costs of pensions by $3.8 billion. The blended contribution rate would decrease from 21.3% to approx. 19.7%. It also provided for the prospective restoration of the current 100% indexing when the Plan returned to surplus. In effect, it would shift future indexing costs to a future period when rates likely will be lower. To minimize the impact on retirees, it guaranteed that no pensioner in the first 10 years after the 2016 effective date would suffer any reduction in the pension s/he would otherwise have received had the current indexing formula remained in effect. [Note: This proposal is along the lines of the Teachers action to manage its Plan deficit and contribution rates. OMERS has almost 2 times Teachers Pension Plan deficit with a little more than 1/3 Teachers assets.]

Proposals submitted by employee sponsors are identical to ones proposed last year. There is the perennial proposal to allow paramedics to negotiate with their employers for the same NRA 60 coverage as police and fire. Second, the Police Association of Ontario continues to ask that civilian employees of police forces be moved to Normal Retirement Age 60 OMERS Plan component. (Both proposals add liabilities and costs.)

Two proposals advanced by employer representatives last year were re-submitted. The first attempts to roll back the early retirement option while the Plan is in deficit so that an NRA 60 member retiring before age 55 and an NRA 65 member retiring before age 60 would receive an actuarial reduction in their pension. The second proposal would reduce the accrual rate (from 2% to 1.85%) on pensions earned in respect of a member's earnings above the YMPE. Both proposals would reduce the Plan's liabilities.

200 University Ave, Suite 801 www.mepco.ca Tel 416.971.9856 ext. 250 Toll Free in Ontario
Toronto, ON, M5H 3C6 mepco@mepco.ca Fax 416.971.6191 877.426.6527