TOP MYTHS ABOUT THE COMPREHENSIVE PLAN REVIEW

Sent on behalf of Paul Harrietha

Straight Talk

Addressing the top myths about the Comprehensive Plan Review

This memo provides important information about the Comprehensive Plan Review. In light of materials that have been circulating about the change proposals, we are using this edition of "Straight Talk" to provide clarity around misunderstandings or inaccuracies that you may have seen. We encourage you to share it with your members and employees.

Top three myths about the Comprehensive Plan Review:

- **Myth #1:** OMERS is manufacturing a crisis and exaggerating the challenges facing the Plan today.
- **Myth #2:** OMERS is doing better than any other major pension plan.
- **Myth #3:** If conditional indexing is adopted, indexing will only be provided if the Plan is fully funded or in surplus.

For more myths and facts, please read "Setting the record straight" (see attached) taken from our latest edition of *Straight Talk.*

Background

In October 2017, the OMERS Sponsors Corporation (SC) began direct consultation with sponsors. This conversation began with sponsors because of the role they play in the governance of the OMERS Plan. Sponsors nominate members of both the OAC and SC Boards, and the SC Board is responsible for the design of the Plan. The goal of the consultation is to ensure – given the realities that OMERS faces – that the Plan remains sustainable, meaningful and affordable for both members and employers.

The OMERS SC has communicated extensively the work the Board has done as part of the Comprehensive Plan Review. Over the past 12 months, members of the SC management team and Board have:

- met regularly with sponsors and other key stakeholders to discuss plan issues;
- conducted dozens of meetings with union, employer and member representatives;
- hosted member webcasts and responded to thousands of member questions; and
- provided formal communications to stakeholder groups, including members.

We have been open and transparent as decisions were made and information was available – and respectful of varying views and perspectives. At this time, it has become necessary to provide clarity and to directly address some of the inaccuracies and misunderstandings that we are seeing in public conversations.

The attached memo responds directly to questions that we have received, and to inaccuracies or misunderstandings that have surfaced in discussions over the past few months. It should help to clarify things – and to ease some of your concerns.

How you can help

To help us share accurate information on the Comprehensive Plan Review, we ask that you direct members to the SC website (www.omerssc.com) for more information and updates. The latest *Straight Talk* has been posted on our website.

The SC website is updated with our latest resources, including videos, *Sightlines* bulletins and updated Frequently Asked Questions. Please visit our website and check back from time to time for the latest news.

Key reminders

Here are some essential things to keep in mind:

- **No changes have been made at this point.** The SC Board will vote on final changes at the Board meeting on November 15th. As always, Plan changes require a two-thirds affirmative vote by the SC Board.

- **The granting of conditional indexing, in full or in part, would not depend on full funding.** The intent is to grant the maximum sustainable level of indexing. If the plan's financial health does deteriorate, the Board would still determine, based on a 2/3rd majority vote, what level of indexing would be granted.

- **Changes, if any, are unlikely to take effect before January 1, 2021.** That would give us at least two full years to finalize administrative processes and systems requirements. It would also give current members two more years to accrue (earn) benefits under the current Plan – and to prepare for any changes that might impact them.

- **Any approved changes will apply only to service after the effective date of the change.** The current rules will apply to all benefits accrued (earned) before the effective date.

- **Any changes will have no impact on current retirees or members who retire before the effective date.** The changes, if any, will only impact members who accrue (earn) pension benefits after the effective date of the change.

On behalf of OMERS SC, thank you in advance for your support. If you have any questions or comments, please feel free to contact me directly at 416.814.6575 or pharrietha@omerssc.com.

Sincerely,

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Straight Talk

OMERS | Sponsors Corporation

Setting the record straight

Addressing the top myths about the Comprehensive Plan Review

In light of materials that have been circulating about the change proposals, here we set the record straight to address some of the recent myths about the Comprehensive Plan Review.

1

Myth	OMERS is manufacturing a crisis and exaggerating the challenges facing the Plan today.
Truth	While there's no immediate crisis, the Plan faces some longer-term challenges that will increase the cost of the Plan in the future and reduce our long-term sustainability.

Facts:

- The purpose of the Comprehensive Plan Review is to determine if the Plan is sustainable given its current financial position and the financial realities that we face. Assuming all goes well, the expectation is that the Plan will be fully funded by 2025. But, it's simply not enough to fully fund by 2025. Our goal is to protect the Plan – and members' interests – over the next 50+ years.
- Extensive analysis was conducted by a reputable third-party (independent) actuarial firm and reviewed by actuarial experts at the OMERS Administration (OAC) Corporation and Sponsors Corporation (SC). All of the work was done in direct consultation with the SC Board, which includes equal representation from both employee and employer representatives.
- Extensive analysis confirms that, left unchanged, the cost of the Plan is expected to increase steadily over time – and significantly under some scenarios. If no proactive steps are taken now, that will very likely mean higher contributions for both employers and members down the road, and the potential for permanent benefit cuts.
- In the spirit of transparency, we offered to share the full analysis, including the underlying assumptions and outputs, with all sponsors.
- Some of our sponsors have hired their own actuaries to conduct a separate analysis – these reports have not been shared with us; nor have credible alternatives for addressing our realities. Our hope is that we could collaborate more fully and learn from their work.

2

Myth	OMERS is doing better than any other major pension plan.
Truth	Despite our strong investment returns in the past few years, we continue to lag our peer plans when it comes to full financial health.

Facts:

- Last year (2017) was a successful year for OMERS. Our net return for the year was an excellent 11.5%, which increased our total net assets to about $95-billion. That's obviously positive news.
- Despite the recent results, we still haven't recovered fully from the 2008 market meltdown. Ten years later, we have a funding shortfall of about $5.4-billion – and the highest contribution rates in our history.
- Like all major pension plans, we also face a number of realities or headwinds – including plan maturity, improved life expectancy, the prospect of a decreasing membership, and challenging financial markets – that will impact our financial position in the coming years.

3

Myth	If conditional indexing is adopted, indexing will only be provided if the Plan is fully funded or in surplus.
Truth	Under the proposed changes, the granting of indexing, in full or in part, would not depend on full funding. The intent is to grant the maximum, sustainable level of indexing – provided it doesn't materially reduce the Plan's financial health.

Facts:

- If conditional indexing were introduced today, when the Plan is 94% funded, members would continue to receive full indexing. That's because the Plan's financial health continues to improve.
- Conditional indexing simply provides an essential financial safety valve if the Plan suffers a significant financial setback (such as the 2008 financial crisis). Indexing will only be suspended, in whole or in part, if the Plan's financial health deteriorates.
- Our intent is to provide as much indexing as possible – including the possibility of restoring "lost" benefits – to the extent that it doesn't put the Plan's health at risk. That will be achieved in large part by the highest contribution levels in OMERS history, which employers (and members) will be asked to continue to pay.
- If the Plan's financial health does deteriorate, the Board will consider what changes need to be made. That could include reduced levels of indexing, but might include different benefit changes. If the Board does choose to reduce indexing on a temporary basis, the actual level of indexing to be granted would be subject to a 2/3rd majority vote (just like any other Plan change).
- This is an important lever to keep the Plan healthy through good times and bad – and for generations to come. Senior leaders at Ontario Teachers' Pension Plan, Healthcare of Ontario Pension Plan (HOOP) and Colleges of Applied Arts and Technology (CAAT) have confirmed that conditional indexing is critical to their financial health. They have also been able to continue to provide indexing.

4	
Myth	Changes to how your pension is calculated would mean a substantial loss in benefits.
Truth	The actual impact of any Plan changes will vary from one member to the next based on their personal circumstances and choices. Many members will have the opportunity to earn larger pensions when combined with the enhanced CPP pension.

Facts:

- The proposed changes will have a very limited impact on long-service members, because the current rules (including guaranteed indexing) will apply to all service before the effective date (presumably January 1, 2021).
- Based on current data, most mid-service and short-service members won't qualify for unreduced early retirement benefits for any number of reasons, including the fact that more people are joining OMERS at later ages and fewer members will qualify for unreduced early retirement in the future. Even now, the data show that a growing number of members are working past their earliest unreduced retirement date, and even their normal retirement date. That means introducing the new early retirement rules will have a very limited impact in the future.
- Our analysis also confirms that most members, regardless of service, will receive higher combined pensions with the enhanced Canada Pension Plan benefits.
- The OMERS pension plan is currently integrated with the Canada Pension Plan. Together, the Plans combine to provide a maximum benefit equal to 70% of your earnings near retirement (2% of your earnings x 35 years of service).
- Based on changes to the CPP, both CPP contributions and benefits will increase beginning in 2019. By adopting a new integration point, we have managed to keep total Plan contributions (member and employer) in check, to a degree.
- At the same time, the total combined pension (OMERS plus CPP) will increase for all members.
- In addition, under the proposed Plan changes, the intent is to sustain maximum levels of indexing – and to restore indexing payments – based on the Plan's financial health. That means there is a very real potential to return pensions to the levels they would have been had indexing been provided at 100% for the full period.

5	
Myth	Moving to conditional indexing is just a way to cut benefits.
Truth	Conditional indexing is used as a risk-management tool that has allowed many of our peer plans to restore their plans to full health, while still providing indexing when affordable – which these plans have been able to do to date.

Facts:

- Other major jointly trusteed pension plans are dealing with the challenges of managing a defined benefit pension plan, such as aging, plan maturity and uncertain financial markets.
- However, many of the gold standard plans in Ontario – like the Ontario Teachers' Pension Plan (OTPP) and the Healthcare of Ontario Pension Plan (HOOPP) – have already dealt with the issues by making essential plan changes, including the introduction of conditional indexing. That's one of the main reasons why they find themselves in such financially healthy positions today.

- The draft Funding Management Strategy (FMS) includes guidelines that would support conditional indexing and would ensure that employers will see no reduction in contribution rates unless members receive indexing.
- Pension plans are, by their nature, extremely long-term vehicles, with liabilities that can extend for 50 years and more. It's our job to look to the future – and to ensure that the Plan remains sustainable, meaningful and affordable for generations to come.

6

Myth	The goal of the Comprehensive Plan Review is to cut benefits because employers just want to reduce their contributions.
Truth	The goal of the Comprehensive Plan Review is long-term sustainability, including affordability for both members and employers.

Facts:

- The intent is not to cut benefits. Rather, the intent is to determine if there is a better and more equitable way to deliver the pension promise in a changing world.
- From the outset of the review, Board members (both employer and employee representatives) have worked together to determine appropriate benefit changes and financial impacts, including contribution levels.
- While some members may be willing to increase their contributions, many members have indicated that they would prefer to see contribution levels drop.
- More importantly, if we don't take action, future generations of Plan members are at risk of paying substantially more – not just for their own retirement, but for prior generations and future retirees.
- These are Plan-friendly changes. And member-friendly changes. They are designed to ensure that the Plan remains sustainable, meaningful and affordable over the longer term.
- This situation is heightened now that Canada Pension Plan (CPP) contributions are set to increase beginning in 2019. Higher CPP contributions mean higher contributions for employers and members. That also means less take-home pay for members.
- For example, as it stands, many lower-paid OMERS members will receive more in retirement (higher net income) than they do as active workers (OMERS pension, plus CPP and OAS). Why would they choose to defer additional wages and reduce their current standard of living to secure a disproportionate income at some later date?
- Of interest, the initial set of recommended Plan changes included a range of possible improvements, such as better survivor benefits for single members and enhanced pensions for lower-paid members. While these innovative changes have been set aside for this round of potential Plan changes, the Board may study them further during the next change cycle.

7

Myth	The vote for proposed changes is being pushed forward ahead of schedule.
Truth	The vote has been deferred by almost 18 months to allow additional time for consultation with sponsors and other stakeholders, including members.

Facts:

- The SC Board was prepared to vote on the possible introduction of a form of conditional indexing in June of 2017, but agreed to defer the vote for a full 12 months (until June 2018) at the request of some sponsors.
- Some sponsors were uncertain that conditional indexing was the preferred response to ensuring Plan sustainability, which was the basis for the Comprehensive Plan Review.
- As a result, the Comprehensive Plan Review was launched in October of 2017 as part of the regular change cycle. Under standard practices, the Board vote was scheduled for June 2018.
- The June vote was deferred until November of 2018 to address, once again, the concerns of select sponsors and allow more time for consultation with stakeholders.

8

Myth	Provincial pension laws can change any time and the proposed changes could ultimately affect current retirees.
Truth	By making the Plan more meaningful, affordable and sustainable, the Comprehensive Plan Review protects the interests of current retirees. The proposed changes would reduce the need for a provincial government to intervene.

Facts:

- Any Plan changes adopted under the Comprehensive Plan Review would have absolutely no impact on the ability of the provincial government to intervene, positively or negatively.
- Defined benefit pension plans are only as secure as the organizations who sponsor them. The only really secure pension plan is a financially healthy and sustainable pension plan, with strong sponsor organizations (including members) that remain committed to the plan.
- The governments in New Brunswick, Quebec and Saskatchewan have cut retiree benefits because the pension plans became too great a financial burden to the provinces in question. We don't have to look any further than Nortel or Sears to understand that there is no such thing as a "guaranteed" pension.
- That is precisely why we are conducting the Comprehensive Plan Review. The OMERS pension plan is in a solid financial position, but it faces some very real financial challenges. Ignoring those challenges won't make them go away.
- By making the proposed changes, we believe that we can sustain the Plan's health well into the future – and to ensure that our members' benefits are protected for generations to come. That includes benefits paid to our retirees, current and future.
- To be clear, the changes that are under consideration in the Comprehensive Plan Review would not impact the benefits received by retired members (and equally would not impact service earned by active members up to the effective date of any change that is approved).