

Supplemental Plans Generic Information

Stakeholder Meeting
September 23, 2005

What are Supplemental Plans?

- Stand-alone registered pension plans – separate financially and actuarially from Primary Pension Plan (Basic Plan)
- Choice of benefits to supplement those provided under Primary Pension Plan – total benefits subject to Income Tax Act maximums
- Bill 206 allows for possible setup of one or more Supplemental Plans
 - Police and/or Firefighters
 - Other members

What are Supplemental Plans? (cont.)

- No more than 2 to 3 Supplemental Plans in total, based on preliminary discussions with Canada Revenue Agency
- Additional regulatory compliance, administration and actuarial issues still to be identified, clarified and/or resolved
- Higher operation costs

Why Supplemental Plans?

- Supplemental Plans provide flexibility in benefit arrangements through bargaining at local level
- Other vehicles do not provide same level of flexibility to tailor benefits
 - Retirement Compensation Arrangements (RCAs) - not cost effective
 - Supplementary Agreements - funding restrictions imposed by Canada Revenue Agency
 - Primary Pension Plan - inability to bargain pension benefits locally

Process for Establishing Supplemental Plans

- Authority to establish Supplemental Plans rests with Sponsors Corporation once Bill 206 is passed
- Choices of benefits, or even packages of benefits, under Supplemental Plans can be broad or limited depending on wishes of Sponsors Corporation
- Local bargaining of Supplemental Plan benefit offerings occurs between employers and their various employee groups
- Administration of Supplemental Plans rests with Administration Corporation

Possible Plan Benefits

- Current stipulations under Bill 206
 - Maximum annual accrual of 2% per annum based on highest 5 year average earnings and 0.6% integration with Canada Pension Plan (CPP)
 - 2.33% p.a. accrual for members of public safety occupations permissible but only for future service
 - 50% cost sharing between employers and members
- Other ideas
 - Final 3 year average earnings
 - 2.33% p.a. accrual applying to past service for members of public safety occupations

Possible Plan Benefits (cont.)

Primary Pension Plan:

2% p.a. accrual with 0.675% integration with CPP

Early retirement within 10 years before NRA

85/90 Factor for unreduced early retirement

5% p.a. early retirement reduction

Possible Supplemental Plan Benefits:

1. 2.5% p.a. early retirement reduction
2. 80/85 Factor (10 years)
3. 80/85 Factor (15 years)
4. 75/80 Factor (10 years)
5. 75/80 Factor (15 years)
6. 25/30 and Out; No Age Limit
7. 0.6% integration with CPP
8. 2.33% Accrual - Integrated (future service)

Other Examples:

9. 2.33% Accrual - Integrated (past & future service)
10. Final 3 year average earnings

Example of Possible Structure

<u>SUPPLEMENTAL PLAN 1</u> Police/Fire						
<u>Employer 1</u>			<u>Employer 2</u>			<u>Others....</u>
Grp A	Grp B	Others...	Grp A	Grp B	Others...	
Benefit A	Benefit B		Benefit B	Benefit A Benefit D		

<u>SUPPLEMENTAL PLAN 2</u> Others						
<u>Employer 1</u>			<u>Employer 3</u>			<u>Others....</u>
Grp C	Grp D	Others...	Grp C	Grp D	Others...	
Benefit C Benefit D	Benefit E		Benefit D	Benefit C		

<u>PRIMARY PENSION PLAN</u> All Members
<i>Common benefits for all NRA 65 and common benefits for all NRA 60</i>



Cost Elements

For this presentation, Supplemental Plan benefits are assumed to apply to all past service on inception of the Supplemental Plans, except for Item 8 – 2.33% Accrual

1. Going Concern Past Service Cost
 - To be paid off over maximum of 15 years
2. Going Concern Future Service Cost
 - Cost of new benefits earned in each future year
3. Initial Solvency Cost
 - Any initial solvency deficit required to be paid off over maximum of 5 years
4. Rebound Cost to Primary Pension Plan
 - Incremental cost to Primary Pension Plan due to expected behavioural change (e.g. higher incidence of early retirement) as result of entitlements under Supplemental Plan

Cost Elements (cont.)

- Costing information provided as rough order of magnitude reference – they are generic, preliminary, non-employer specific
- Costs presented are actuarial costs based on current snapshot
 - Very rough indication of initial contribution rates (percentage of pay)
- Actual contribution rates have to be based on longer term projections and numerous other factors
- Start up costs not included

Cost Elements (cont.)

- For consistency, same going concern assumptions and methods as previous costings are used
 - subject to future review of continued appropriateness
- Membership updated to December 31, 2004
- Solvency basis updated to September 2005
- Measured separately for entire NRA 60 membership and entire NRA 65 membership
- As Supplemental Plans are developed, many factors will evolve to cause costing information to change

Summary of Supplemental Plan Costs

– NRA 60

Costs include all past service benefits

Benefit NRA 60 Members (Active Members Only)		Going Concern		Solvency	Rebound Cost to Primary Pension Plan	Total Cost (With Solvency Funding)	Total Cost (Without Solvency Funding)
		Past Service Cost (% Of Earnings Over 15 Years)	Future Service Cost (% Of Earnings)	(% Of Earnings Over 5 Years)	(% Of Earnings)		
1	2.5% reduction per year	0.40%	0.40%	4.90%	0.45% for 15 yrs; 0.15% thereafter	6.15% for 1 st 5 yrs; 1.25% for next 10 yrs; 0.55% thereafter	1.25% for 15 yrs; 0.55% thereafter
2	80 Factor, up to 10 years before NRA	0.30%	0.30%	2.85%	0.45% for 15 yrs; 0.15% thereafter	3.90% for 1 st 5 yrs; 1.05% for next 10 yrs; 0.45% thereafter	1.05% for 15 yrs; 0.45% thereafter
3	80 Factor, up to 15 years before NRA	0.30%	0.30%	3.30%	0.45% for 15 yrs; 0.15% thereafter	4.35% for 1 st 5 yrs; 1.05% for next 10 yrs; 0.45% thereafter	1.05% for 15 yrs; 0.45% thereafter
4	75 Factor, up to 10 years before NRA	0.65%	0.65%	6.05%	0.45% for 15 yrs; 0.15% thereafter	7.80% for 1 st 5 yrs; 1.75% for next 10 yrs; 0.80% thereafter	1.75% for 15 yrs; 0.80% thereafter
5	75 Factor, up to 15 years before NRA	0.95%	0.80%	7.75%	0.40% for 15 yrs; 0.10% thereafter	9.90% for 1 st 5 yrs; 2.15% for next 10 yrs; 0.90% thereafter	2.15% for 15 yrs; 0.90% thereafter

Summary of Supplemental Plan Costs

– NRA 60 (cont.)

Costs include all past service benefits except for Item 8

Benefit NRA 60 Members (Active Members Only)	Going Concern		Solvency	Rebound Cost to Primary Pension Plan	Total Cost (With Solvency Funding)	Total Cost (Without Solvency Funding)
	Past Service Cost (% Of Earnings Over 15 Years)	Future Service Cost (% Of Earnings)	(% Of Earnings Over 5 Years)	(% Of Earnings)		
6 25 and Out, No Age Limit	3.40%	2.45%	6.10%	2.45% for 15 yrs; 0.60% thereafter	14.40% for 1 st 5 yrs; 8.30% for next 10 yrs; 3.05% thereafter	8.30% for 15 yrs; 3.05% thereafter
7 0.6% integration with CPP	0.40%	0.30%	0.35%	N/A	1.05% for 1 st 5 yrs; 0.70% for next 10 yrs; 0.30% thereafter	0.70% for 15 yrs; 0.30% thereafter
8 2.33% Accrual (Future Service Only)	0.00%	3.55%	0.00%	0.45% for 15 yrs; 0.15% thereafter	4.00% for 1 st 15 yrs; 3.70% thereafter	4.00% for 15 yrs; 3.70% thereafter
9 2.33% Accrual (Past and Future Service)	4.90%	3.55%	5.85%	0.45% for 15 yrs; 0.15% thereafter	14.75% for 1 st 5yrs; 8.90% for next 10 yrs; 3.70% thereafter	8.90% for 15 yrs; 3.70% thereafter
10 Final 3 Year Average Earnings	1.40%	1.00%	1.95%	N/A	4.35% for 1 st 5yrs; 2.40% for next 10 yrs; 1.00% thereafter	2.40% for 15 yrs; 1.00% thereafter

Summary of Supplemental Plan Costs

– NRA 65

Costs include all past service benefits

Benefit NRA 65 Members (Active Members Only)		Going Concern		Solvency	Rebound Cost to Primary Pension Plan	Total Cost (With Solvency Funding)	Total Cost (Without Solvency Funding)
		Past Service Cost (% Of Earnings Over 15 Years)	Future Service Cost (% Of Earnings)	(% Of Earnings Over 5 Years)	(% Of Earnings)		
1	2.5% reduction per year	0.45%	0.50%	3.95%	0.30% for 15 yrs; 0.10% thereafter	5.20% for 1 st 5 yrs; 1.25% for next 10 yrs; 0.60% thereafter	1.25% for 15 yrs; 0.60% thereafter
2	85 Factor, up to 10 years before NRA	0.25%	0.25%	1.85%	0.30% for 15 yrs; 0.10% thereafter	2.65% for 1 st 5 yrs; 0.80% for next 10 yrs; 0.35% thereafter	0.80% for 15 yrs; 0.35% thereafter
3	85 Factor, up to 15 years before NRA	0.40%	0.35%	3.95%	0.35% for 15 yrs; 0.15% thereafter	5.05% for 1 st 5 yrs; 1.10% for next 10 yrs; 0.50% thereafter	1.10% for 15 yrs; 0.50% thereafter
4	80 Factor, up to 10 years before NRA	0.60%	0.65%	4.40%	0.30% for 15 yrs; 0.10% thereafter	5.95% for 1 st 5 yrs; 1.55% for next 10 yrs; 0.75% thereafter	1.55% for 15 yrs; 0.75% thereafter

Summary of Supplemental Plan Costs

– NRA 65 (cont.)

Costs include all past service benefits

Benefit NRA 65 Members (Active Members Only)	Going Concern		Solvency	Rebound Cost to Primary Pension Plan	Total Cost (With Solvency Funding)	Total Cost (Without Solvency Funding)
	Past Service Cost (% Of Earnings Over 15 Years)	Future Service Cost (% Of Earnings)	(% Of Earnings Over 5 Years)	(% Of Earnings)		
5 80 Factor, up to 15 years before NRA	1.10%	0.95%	7.15%	0.45% for 15 yrs; 0.15% thereafter	9.65% for 1 st 5 yrs; 2.50% for next 10 yrs; 1.10% thereafter	2.50% for 15 yrs; 1.10% thereafter
6 30 and Out, No Age Limit	0.60%	0.35%	1.65%	0.25% for 15 yrs; 0.10% thereafter	2.85% for 1 st 5 yrs; 1.20% for next 10 yrs; 0.45% thereafter	1.20% for 15 yrs; 0.45% thereafter
7 0.6% integration with CPP	0.45%	0.50%	0.40%	N/A	1.35% for 1 st 5 yrs; 0.95% for next 10 yrs; 0.50% thereafter	0.95% for 15 yrs; 0.50% thereafter
10 Final 3 Year Average Earnings	0.65%	0.70%	1.15%	N/A	2.50% for 1 st 5 yrs; 1.35% for next 10 yrs; 0.70% thereafter	1.35% for 15 yrs; 0.70% thereafter

Possible Factors Affecting Actual Costs and Contribution Rates

- Additional regulatory compliance, administration and actuarial issues which could surface and impact final design and delivery of Supplemental Plan benefits
- Local employer profile (e.g. age and length of service)
- Plan and market experience (e.g. actual plan early retirement experience)
- Funding policy to be adopted (e.g. valuation method)
- Higher operation costs

Illustrations

- Developed for sole purpose of assisting in understanding information provided and potential cost structure of Supplemental Plans – not to be construed as definitive final cost structure or contribution rates
- Two examples are developed:
 - Example 1 – Application for typical NRA 60 member and his/her employer
 - Example 2 – Application for typical NRA 65 member and his/her employer
 - Example 3 – Application for hypothetical employer

Example 1 – NRA 60

- Profile of a typical NRA 60 member:

Average age:	41
Average credited service:	14 years
Average pensionable earnings:	\$69,500

- Benefit offering:
 - Item 4 (75 Factor, up to 10 years before NRA)

Example 1 – NRA 60 (cont.)

Potential annual cost structure as % of pay:

	Item 4 (75 Factor, up to 10 years before NRA)	
	Cost (with solvency funding)	Cost (without solvency funding)
Total (Member and Employer)	7.80% for 1st 5 yrs; 1.75% for next 10 yrs; 0.80% thereafter	1.75% for 1st 15 yrs; 0.80% thereafter
Member 50% share	3.90% for 1st 5 yrs; 0.88% for next 10 yrs; 0.40% thereafter	0.88% for 1st 15 yrs; 0.40% thereafter

Example 1 – NRA 60 (cont.)

- Initial annual dollar contributions by NRA60 member in example (very approximate):

Annual Earnings \$69,500	Initial annual member contributions		Percentage increase in initial annual member contributions
	Primary Pension Plan	Supplemental Plan Item 4 (75 Factor, up to 10 years before NRA)	
With Solvency Funding	\$6,290 • 7.9% of earnings up to YMPE • 10.7% of earnings above YMPE	\$2,720 • Average of 3.9% of earnings	+43%
Without Solvency Funding	\$6,290 • 7.9% of earnings up to YMPE • 10.7% of earnings above YMPE	\$620 • Average of 0.88% of earnings	+10%

Example 2 – NRA 65

- Profile of a typical NRA 65 member:

Average age:	45
Average credited service:	10 years
Average pensionable earnings:	\$47,100

- Benefit offering:
 - Item 6 (30 and Out, no age limit)

Example 2 – NRA 65 (cont.)

Potential annual cost structure as % of pay:

	Item 6 (30 and Out, no age limit)	
	Cost (with solvency funding)	Cost (without solvency funding)
Total (Member and Employer)	2.85% for 1st 5 yrs; 1.20% for next 10 yrs; 0.45% thereafter	1.20% for 1st 15 yrs; 0.45% thereafter
Member 50% share	1.43% for 1st 5 yrs; 0.60% for next 10 yrs; 0.23% thereafter	0.60% for 1st 15 yrs; 0.23% thereafter

Example 2 – NRA 65 (cont.)

- Initial annual dollar contributions by NRA65 member in example (very approximate):

Annual Earnings \$47,100	Initial annual member contributions		Percentage increase in initial annual member contributions
	Primary Pension Plan	Supplemental Plan Item 6 (30 and Out, no age limit)	
With Solvency Funding	\$3,250 • 6.5% of earnings up to YMPE • 9.6% of earnings above YMPE	\$680 • Average of 1.43% of earnings	+21%
Without Solvency Funding	\$3,250 • 6.5% of earnings up to YMPE • 9.6% of earnings above YMPE	\$290 • Average of 0.6% of earnings	+9%

Example 3 – Hypothetical Employer

- Consider hypothetical employer with 1,000 employees subscribing to Supplemental Plans for both NRA 60 and NRA 65 members

	NRA 60	NRA 65	Total
Headcount	260	740	1,000
Employee Profile	Average of entire OMERS NRA 60 membership	Average of entire OMERS NRA 65 membership	n/a
Est. Annual Payroll	\$18.1 million	\$34.9 million	\$53.0 million
Supplemental Plan Benefits	Item 4 (75 Factor, up to 10 years before NRA)	Item 6 (30 and Out, no age limit)	n/a

Example 3 – Hypothetical Employer (cont.)

- Hypothetical annual employer Supplemental Plan cost for benefits selected – matched by members:

	NRA 60	NRA 65	Total
Employer Cost (with solvency funding)			
Expressed as % of pay	3.90% for 1st 5 yrs; 0.88% for next 10 yrs; 0.40% thereafter	1.43% for 1st 5 yrs; 0.60% for next 10 yrs; 0.23% thereafter	n/a
Initial annual cost	[3.90% x \$18.1 million] \$0.71 million	[1.43% x \$34.9 million] \$0.50 million	\$1.21 million
Employer Cost (without solvency funding)			
Expressed as % of pay	0.88% for 1st 15 yrs; 0.40% thereafter	0.60% for 1st 15 yrs; 0.23% thereafter	n/a
Initial annual cost	[0.88% x \$18.1 million] \$0.16 million	[0.60% x \$34.9 million] \$0.21 million	\$0.37 million

Example 3 – Hypothetical Employer (cont.)

- Initial annual dollar contributions by hypothetical employer in example (very approximate) – matched by members:

	NRA 60	NRA 65	Total
Primary Pension Plan	\$1.64 million <ul style="list-style-type: none"> • 7.9% of earnings up to YMPE • 10.7% of earnings above YMPE 	\$2.40 million <ul style="list-style-type: none"> • 6.5% of earnings up to YMPE • 9.6% of earnings above YMPE 	\$4.04 million
Supplemental Plans (With Solvency Funding)	\$0.71 million <ul style="list-style-type: none"> • Average of 3.90% of earnings 	\$0.50 million <ul style="list-style-type: none"> • Average of 1.43% of earnings 	\$1.21 million
Supplemental Plans (Without Solvency Funding)	\$0.16 million <ul style="list-style-type: none"> • Average of 0.88% of earnings 	\$0.21 million <ul style="list-style-type: none"> • Average of 0.6% of earnings 	\$0.37 million
Total (With Solvency Funding)	\$2.35 million	\$2.95 million	\$5.25 million
Total (Without Solvency Funding)	\$1.80 million	\$2.61 million	\$4.41 million

Recap

- Supplemental Plans provide flexibility in benefit arrangements through bargaining at local level
- Benefits provided through Supplemental Plans intended to complement benefits provided in Primary Pension Plan
- Other vehicles do not provide same level of flexibility to tailor benefits

Recap (cont.)

- Costs associated with respective benefit improvements broken down into past and future service costs, solvency costs and rebound costs – some benefit improvements cheaper than others
- Costing information provided as rough order of magnitude reference – they are generic, preliminary, non-employer specific
- As Supplemental Plans are developed, many factors will evolve to cause costing information to change

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