

## For Information Only

### Ontario Municipal Employees Retirement System (OMERS) Rates

Presented To:	Finance Committee
Presented:	Tuesday, Nov 08, 2011
Report Date	Friday, Oct 28, 2011
Type:	Correspondence for Information Only

### Recommendation

For information only

## Financial Implications

The increases to OMERS contribution rates described in this report will increase CGS's overall Salaries and Benefits budget by \$1.68 million in 2012.

## Background

The Ontario Municipal Employees Retirement System (OMERS) approved temporary changes in 2010 to support the funded status of the OMERS Primary Plan. These changes took effect in 2011 and extended into 2012 and 2013 increasing the Employee and CGS contributions by 1% in 2011, 1% in 2012 and 0.9% in 2013. In preparation for the 2012 budget, staff anticipated that Council may want an update on the impact of rate changes and the funded status of the plan.

## Purpose

The purpose of this report is to provide an update to the January 5<sup>th</sup>, 2011 report from the Director of Human Resources and Organizational Development which described the impact on the CGS budgets for 2011, 2012 and 2013. This report is attached as Appendix 1.

## OMERS Investment Update and Funding Status

In the January 5<sup>th</sup>, 2011 report, staff reported on a change in investment strategy which OMERS predicted would increase return on investment of the plan assets. This change moved the target for future returns to the 7 - 11% range in comparison to a 5 year average of 6.6%. This increased return in addition to the increased contributions for both sides is aimed at addressing the \$8 billion in investments losses the Primary Plan experienced in late 2008 with the collapse of global credit markets and the subsequent equity

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market downturn. In 2010, the actual rate of return on plan assets was 12.01%.

In the January 5<sup>th</sup>, 2011 report, staff reported that the actuarial deficit for the OMERS primary plan was \$1.5 billion. The most recent actuarial valuation of the Primary Plan disclosed total going concern actuarial liabilities of \$60.1 billion in respect of benefits accrued for service to December 10<sup>th</sup>, 2010. The actuarial assets at that date were \$55.6 billion indicating a going concern actuarial deficit of \$4.5 billion. The actuarial opinion includes the following statement concerning future years: "Ongoing adequacy of the Primary Plan's contribution rates will need to be monitored to ensure that future contributions, together with Primary Plan assets and future investment earnings thereon, will be sufficient to provide for future benefits". OMERS Financial Officer Patrick Crowley is somewhat more upbeat in a statement following the release of the actuarial valuation report for 2010 in the spring of this year saying: "Based on our asset mix policy and active investment strategy, we can generate average returns of 7% to 11% annually over the next 5 years. Doing so would return us to surplus between 2015 and 2020 - 5 to 10 years ahead of schedule".

## **Conclusion**

These pension contribution rate changes result in an unavoidable increase of \$1.68 million to the 2012 budget. Further, these increases have a cumulative, sustained and legislatively unavoidable effect on the CGS budget in 2013. Ongoing uncertainty in global equity markets makes further change beyond 2013 a strong possibility.

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### Ontario Municipal Employees Retirement System Contribution Rate Increases

Presented To: City Council

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Report Date: Wednesday, Jan 05, 2011

Type: Correspondence for Information Only

### Recommendation

For Information Only

### Finance Implications

The increases to OMERS contributions described in this report will increase the overall Salaries and Benefits budgets by \$1.5 million annually in each of 2011, 2012 and 2013.

## Background

The Ontario Municipal Employees Retirement System (OMERS) has approved temporary changes to support the funded status of the OMERS Primary Plan. These changes take effect in 2011 and have a significant impact on 2011 and subsequent annual budgets. In preparation for the 2011 budget, staff anticipated that Council may have questions about these changes and the impact to the budget over the next three (3) years.

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## OMERS Funding Status and Investment Strategy Moving Forward:

The changes were undertaken as a temporary strategy to support the funded security of the OMERS Primary Plan. According to the most recent actuarial valuation, this Plan had a funding shortfall of \$1.5 billion at December 31st, 2009. The primary driver of this shortfall was the collapse of the global credit markets in late 2008 and the subsequent equity market downturn.

Another significant driver of the funding shortfall was the contribution holiday taken from 1998 - 2003. Although this holiday was supported by legislation prohibiting surpluses of greater than 10% of pension obligations, coincident benefit improvements drew \$3.5 billion out of the surplus and the fund fell into deficit by 2005. With solid fund investment performance, the fund returned to a small surplus in 2007. The 2008 global credit crisis cost OMERS \$8 billion in investment losses. Under current Ontario Pension law, investment experience is smoothed by considering a five (5) year running average of solvency discount

rates and OMERS contends that these funding changes are required to offset the nearly \$5 billion of net losses which will be added to the Plan's balance sheet over the next four (4) years.

Over the past five (5) years, the OMERS Primary Plan has earned 6.6% on an annualized basis. OMERS intends to change their investment strategy in two (2) ways:

- a) change in investment strategy to reduce the Plan's exposure to public equity markets and shift capital into private market assets; and
- b) directly invest and actively manage as many OMERS investments as possible.

Future return goals are in the 7% - 11% range.

### **Description of Temporary Changes:**

OMERS has announced a three (3) year contribution rate increase for both Members and Employers, beginning in 2011 as follows:

- 1% of a member's earnings per side in 2011
- 1% of a member's earnings per side in 2012
- An average of 0.9% per side in 2013.

OMERS has also announced that starting on January 1st, 2013, benefit calculation changes will affect Members who terminate employment and are not eligible for an early retirement pension. These Members will no longer have pre-retirement indexing and early retirement subsidies included in the calculation of their benefits. This change will affect Members who terminate employment before age 55 (if their NRA is age 65) and before age 50 (if their NRA is age 60).

### **Impact of Changes on CGS Budgets 2011 - 2013:**

Department Salaries	2010 Salary	2011 Salary	2012 Salary	2013 Salary
Police Services	31,386,997	32,328,607	33,298,465	33,964,434
All Others	<u>119,317,972</u>	<u>122,181,603</u>	<u>124,991,780</u>	<u>127,491,616</u>
Total	150,704,969	154,510,210	158,290,245	161,456,050
OMERS Annual Impact		<u>1,545,102</u>	<u>1,582,902</u>	<u>1,453,104</u>
OMERS Cumulative Impact		<u>1,545,102</u>	<u>4,710,906</u>	<u>9,070,218</u>

#### **\* Wage Increases**

Police Services	3.0%	3.0%	2.0%
All Others	2.4%	2.3%	2.0%

<b>OMERS Annual Increase</b>	<b>1.0%</b>	<b>1.0%</b>	<b>0.9%</b>
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\* Wage increases for Police Services is the actual increase for 2011 and estimates for 2012 and 2013; the wage increase for all others is based on the actual increase for 2011 and 2012 and the estimate for 2013.