

## For Information Only

### Ontario Municipal Employees Retirement System Contribution Rate Increases

Presented To: City Council

Presented: Wednesday, Jan 12, 2011

Report Date: Wednesday, Jan 05, 2011

Type: Correspondence for Information Only

#### Recommendation

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#### 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:**

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

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

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

**OMERS Annual Increase****1.0%****1.0%****0.9%**

\* 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.