

DATE: August 25, 2010

REPORT TITLE: **OMERS PLAN CHANGES AND CONTRIBUTION RATE INCREASES**

FROM: R. Kent Gillespie, Commissioner of Employee and Business Services  
 Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

## OBJECTIVE

To advise Council of upcoming changes to the OMERS pension plan effective January 2011 and the resulting impact on the Region of Peel and its employees.

### REPORT HIGHLIGHTS

- Current OMERS shortfall of \$1.5 billion is expected to grow to nearly \$5 billion over the next four years due to the 2008 global market downturn.
- The OMERS Sponsor Corporation is addressing this shortfall through temporary contribution rate increases and temporary benefit calculation changes.
- Plan contributions by both employees and employers to increase as follows:
  - (1) 2011 – 1.0% per side
  - (2) 2012 – 1.0% per side
  - (3) 2013 – 0.9% per side
- This will impact the Region of Peel 2011 budget by \$4.8 million (\$2.8 million for the Region of Peel and \$2.0 million for Peel Regional Police), and individual employees by 1% of their annual salary amount.
- Similar increases are expected in 2012 and 2013. The total combined impact to the Region of Peel and Peel Regional Police over three years is estimated to be \$13.9 million.
- Temporary benefit calculations changes will impact plan members who terminate employment prior to being eligible for early retirement

## DISCUSSION

### 1. Background

The OMERS Sponsors Corporation regularly reviews the funding status of the OMERS plan, and considers options in reaction to any surpluses or deficits that might be identified. Under current pension legislation any actuarial deficit that is recognized must be funded over a 5 year period.

As a result of the 2008 global market downturn, OMERS recognized a \$1.5 billion shortfall as of December 31, 2009 that is expected to grow to nearly \$5 billion as net losses are fully recognized on its balance sheet over the next four years. To address this shortfall, the OMERS Sponsor's Corporation has approved temporary changes for both employers and

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members. Some minor increases to the contribution rates were implemented in 2010, however the bulk of the mitigation will occur in the next three years.

**a) Temporary Contribution Rate Increases**

Contribution rates for both employers and active members will increase in 2011 through 2013 as follows:

**2011** – Effective with the first full pay of 2011, contribution rates will increase by 1% per side (employer/employee) as a percentage of a member’s earnings.

**2012** – Effective with the first full pay of 2012, contribution rates will increase by an additional 1% per side (employer/employee).

**2013** – Effective with the first full pay of 2013, contribution rates will increase by an additional 0.9% per side (employer/employee).

For most employees, a 1% increase will generally result in a 10% - 13% increase in the actual contributions to be made to the Plan. However the net increase would be less because pension plan contributions are tax-deductible.

**b) Temporary Benefit Calculation Changes**

Members who terminate employment prior to being eligible for early retirement will have temporary benefit reductions. Starting in 2013, these temporary benefit calculation changes will only affect members who terminate employment prior to being eligible for early retirement. The benefit calculation changes for employees terminating the plan are in the process of being developed and will be communicated in the fall. This plan change does not impact members who keep their pension at OMERS or retire and take a pension through OMERS.

**FINANCIAL IMPLICATIONS**

Employer Impacts

The plan to increase the employer contribution rates over the next three years will impact the budgets of 2011, 2012 & 2013. The following chart quantifies the annual impacts on the budget for the Region of Peel and Peel Regional Police.

Budget Year	Budget Impact in Millions		
	Region of Peel	Peel Regional Police	Total
2011	\$2.8	\$2.0	\$4.8
2012	2.8	2.0	4.8
2013	2.5	1.8	4.3
<b>Cumulative Total</b>	<b>\$8.1</b>	<b>\$5.8</b>	<b>\$13.9</b>

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The estimated 2011 budget impact of \$4.8 million is equivalent to 0.6% of the tax rate. The total cumulative impact of \$13.9 million over the three year phase in period is equivalent to 1.7% of the tax rate.

The Municipal Employer Pension Centre of Ontario (MEPCO) estimates that on a broader scale a contribution increase of 1% per side, could result in a total cost increase of approximately \$51 million annually for municipal employers as a whole.

Employee Impacts

The increased employee contribution rates will impact individual employees differently depending on their salary level. As an example an employee with a salary of \$60 thousand would see an increased deduction for OMERS contributions from their annual pay of \$600. This would be offset to some degree by decreased income taxes. The amount of this saving would vary depending on each employee's marginal income tax rate. Similar impacts will be felt by employees in 2012 and 2013.

These increases are being characterized as temporary, however no timetable outlining their elimination in future years has been provided.

**CONCLUSION**

In response to the OMERS funding shortfall resulting from the 2008 global market downturn temporary contribution rate increases will be phased in over the next three years. These increased rates will impact both the Region and its employees.



*for:* R. Kent Gillespie  
Commissioner of Employee  
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Norma Trim  
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**Approved for Submission:**



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