AMENDMENT AND RESTATEMENT OF

BY-LAW NO. 20

Being an amendment and restatement of By-Law No. 20
of the
OMERS Sponsors Corporation

pertaining to the Primary Plan Statement of Plan Design Objectives and Strategy

NOW THEREFORE be it enacted as a by-law of the OMERS Sponsors Corporation as follows:

1. The OMERS Sponsors Corporation's Primary Plan Statement of Plan Design Objectives and Strategy attached hereto as Schedule "A" is hereby amended and approved effective October 22, 2014.

2. Any amendment to, or repeal of, this By-Law or the OMERS Sponsors Corporation's Primary Plan Statement of Plan Design Objectives and Strategy attached hereto as Schedule "A" will require an affirmative two-thirds (2/3s) vote of the Members of the OMERS Sponsors Corporation.

CERTIFIED by the Co-Chairs of the Corporation to have been validly enacted by a vote of all of the Members of the OMERS Sponsors Corporation at a duly convened meeting of such Members held the 22nd day of October, 2014.

Marianne Love,
Co-Chair

Brian O'Keefe,
Co-Chair

Schedule "A"

Sponsors Corporation
Primary Plan
Statement of Plan Design Objectives and Strategy

Policy Sponsor: OMERS Sponsors Corporation

Contents

1. INTRODUCTION

The OMERS Sponsors Corporation (the "SC") is a corporation established under the OMERS Act 2006 (the "OMERS Act"). As set out in the OMERS Act, and detailed in the Framework Agreement established between the OMERS Administration Corporation ("OAC") and the SC, funding of the OMERS Primary Pension Plan (the "Primary Plan") is a joint responsibility of the OAC and the SC. Specifically, the SC is responsible for making decisions about the design of and the amendments to the Primary Plan, setting contribution rates, establishing any stabilization reserves and making decisions on such other issues consistent with the terms of the OMERS Act. The OAC is primarily responsible for asset allocation and investment management of the Primary Plan fund, providing for the actuarial valuation, establishing a funding policy and administering the Primary Plan.

This Statement of Plan Design Objectives and Strategy ("Statement") only addresses one of the funding elements and should be read in conjunction with the following documents established and approved by the Board of the OAC:

- the Primary Plan Funding Policy; and
- the SIP&P of the Primary Plan.

This Statement sets out the methodology for determination by the SC of the contribution rates for members and participating employers, the design of benefits of the Primary Plan and the establishment of reserves there under, giving due consideration to the two aforementioned documents and OAC's duties as the administrator of the Primary Plan. This Statement is not intended to apply to the OMERS Supplemental Plan for Police, Firefighters and Paramedics ("Supplemental Plan") or the Retirement Compensation Arrangement for the OMERS Primary Pension Plan ("RCA"), which are both separate and distinct OMERS pension plans. The RCA has a separate Statement of Plan Design Objectives and Strategy, initially approved by the SC on May 24, 2012.

On November 5, 2009, the SC adopted the following statement of the best interests of the Corporation:

> *"The best interests of the OMERS Sponsors Corporation ("SC") include governance and decision making practices which support the health and long-term viability of the jointly-sponsored OMERS pension plans, and give due consideration to the interests of the stakeholders and other relevant circumstances*."

The SC recognizes that the development of this Statement and its attendant decision making practices are in the best interests of the SC. Adherence to the methodology enunciated in this Statement will provide stability and assist in focused and expedited decision making within the timeframes set out by the OMERS Act and the PBA and will reassure stakeholders that the SC is committed to the funding strategy contained in this Statement.

2. DESCRIPTION OF THE PRIMARY PLAN

The Primary Plan is:

- a registered defined benefit pension plan under the PBA[1] and the ITA[2];
- governed by the OMERS Act; and
- a jointly-sponsored pension plan ("JSPP") under the PBA.

The benefit provisions and other terms of the Primary Plan are set out in a stand-alone plan text, as amended from time to time. The Primary Plan currently provides a pension benefit based on members' annual average earnings for the highest paid 60 consecutive months and years of credited service. All pensions are currently indexed to the Consumer Price Index for Canada.

The Primary Plan is required to be pre-funded through generally equal contributions by members and employers in combination with investment earnings on the Primary Plan fund.

3. FUNDING OBJECTIVES

The primary objective of the SC with respect to the Primary Plan is to ensure the continuing health and long term viability of the jointly-sponsored pension plan. To meet this objective, the SC considers the appropriate balance between competing funding objectives, particularly with respect to such concepts as equity, sustainability, security of benefits including the pension promise, and affordable cost.

The concept of equity raises a number of competing objectives for the SC. Given the size of the Primary Plan, the number of groups represented, the number and variety of contributing employers and members, and the potential impact that plan design and contribution decisions can have on current and future

[1] *The Pension Benefits Act of Ontario, and the regulations applicable thereto, all as amended from time to time.*

[2] *The Income Tax Act, and the regulations applicable thereto, all as amended from time to time.*

participants in the Primary Plan, the SC must give due consideration to the impact that each of its decisions have on the equities that exist between:

- employers and members;
- classes of members; and
- generations.

While maintaining an equitable balance across each of these groups is an objective of the SC, it should be noted that absolute equity can never be achieved either because it is an inevitable consequence of the risk-pooling nature of a defined benefit plan or because of the given circumstances and the nature of the changes under consideration.

Affordable cost and benefit security are also important competing objectives for the SC. Ideally, all benefits under the Primary Plan can be maintained without impacting affordability for all participants. However, this may not be consistently the case over the life of the Primary Plan. As circumstances change, the SC will need to reconsider the appropriate balance between these two competing objectives.

A corollary objective to cost and benefit security is limited volatility. While contribution and benefit changes will occur from time to time depending on prevailing circumstances, it is an objective of the SC to limit the year over year impact of such changes where reasonable. Limited volatility may impact intergenerational equity but, at the same time, provides better budgeting/planning and funding clarity for both employers and members.

This Statement is intended to drive strategic funding decisions made by the SC.. It provides direction on the course of action to be taken, in some cases the specific course of action requires additional decisions to be made, in other cases there is little or no decision required. For example, this Statement indicates when benefit reductions are required but does not, if the relevant circumstances arise, indicate what benefits would be modified to achieve the desired outcome where such changes would be decided in due course. Similarly, this Statement, under certain circumstances in Deficit Management, allows for the SC to reduce the blended contribution rate (employers and members combined) should they be greater than the amounts specified herein. However, this Statement neither indicates that the blended contribution rate should be reduced, nor the amount to which it should be reduced; both of these issues would need to be decided in due course. In contrast, during Reserve Management there is little or no latitude for determining the contribution rates under this Statement.

The SC will exercise judgement when situations arise which have not been contemplated by the Statement or where taking the required actions would be imprudent due to the prevailing circumstances. Even in these situations, it is expected that the SC’s decision making will be driven by the funding strategy contained in this Statement.

4. FUNDING TARGET

The funding target for the Primary Plan shall be to maintain, over the long term, a going-concern funded ratio (specifically, the ratio of the smoothed value of assets to the going-concern actuarial liability of the Primary Plan) of 100%, and an additional reserve of up to 10% when not in deficit. Contributions to attain the funding target shall be determined by the SC from time to time, but in any event, shall be no less than the greater of that required by applicable legislation and that required by this Statement.

5. MECHANISMS TO ACHIEVE OBJECTIVES

The annual business cycle for the SC includes protocols for the annual review of the funded status and projected contributions for the Primary Plan in accordance with Touchpoint 5 of the Framework Agreement, and continues with a process for consideration of benefit design and contribution changes pursuant to By-Law No.12.

Pursuant to Touchpoint 5 of the Framework Agreement, the OAC prepares an annual valuation report of the Primary Plan ("Annual Valuation"). The Annual Valuation with the minimum funding requirements pursuant to applicable pension legislation (hereafter referred to as the "Legislated Minimum Funding Rate") are to be delivered to the SC by the OAC by no later than +/- March 1st of each year. In addition, a projection valuation is also to be provided to the SC in mid-March.

Following delivery of the Annual Valuation and projections, a determination is made as to whether changes are required or permitted under this Statement and to invoke the decision making process outlined in By-Law No.12 as follows:

- In a year when an Annual Valuation is required to be filed with the applicable pension regulators, and the results of the Annual Valuation show that one or more of the thresholds outlined in Section 6 of this Statement have been met and require changes to contributions and/or benefits, the decision making process will automatically be invoked.
  - Despite such determination, the SC by a 2/3s affirmative vote can elect to not invoke the decision making process.
- In any other circumstances, the SC may elect to invoke the decision making process to address plan funding issues by:
  - Indicating which element of this Statement the decision making process is meant to address; and
  - A 2/3s affirmative vote.

References in Section 6 to changes required by the Annual Valuation are only relevant when determination has been made to proceed with the decision making process.

By-Law No. 12 of the SC provides a detailed protocol for review and discussion of specified change proposals for OMERS pension plans. A specified change proposal is described as:

- a change in benefits for members of any of the OMERS pension plans;
- a change in the contribution rate for members or participating employers; or
- the establishment of, or a change to, a reserve to stabilize contribution rates.

This Statement, in combination with By-Law No. 12, provides the structure for the SC to systematically review the status of the Primary Plan and a vehicle to ensure that all options are considered regarding the funding objectives and funding target.

6. Funding Management Strategy

The Members of the SC will give due consideration to the multiple competing objectives for the Primary Plan and shall comply with the following*:*

i) Deficit Management: When an Annual Valuation of the Primary Plan indicates a going-concern funding deficit (i.e., a going-concern funded ratio, based on the smoothed value of assets, of less than 100%) the Primary Plan is in *Deficit Management* as set out in this section.

While in Deficit Management the blended contribution rate shall be no less than the greater of:

- The Legislated Minimum Funding Rate; and
- Normal cost plus 2% (1% per side).

In the event that an Annual Valuation indicates that the currently established contribution rate[3] exceeds the above amount, the SC may elect to reduce the blended contribution rate, but not below the above amount.

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[3] "*currently established blended contribution rate" shall be determined using the contribution rates of the Primary Plan and the same earnings information that the OAC Actuary used to determine the Legislated Minimum Funding Rate.*

Notwithstanding the above, should an Annual Valuation show that the Legislated Minimum Funding Rate (i.e. assuming the Annual Valuation were filed) has increased and exceeds the currently established blended contribution rate then the blended contribution rate and benefits will be adjusted pursuant to the following table and as described below.

The overall impact on contributions and benefits must be consistent with the following table as determined by the OAC Actuary. The blended contribution rate will first be increased until the total annual blended contribution rate reaches 19.5% of contributory earnings. Thereafter, benefit reductions will be implemented at an increasing rate to mitigate the increase in the Legislated Minimum Funding Rate. Any "new funding", the difference between the Legislated Minimum Funding Rate and the currently established blended contribution rate will be dealt with as follows:

Legislated Minimum Funding Rate[4] (employers and members combined)	**Benefit Reduction**
A total blended rate of less than 19.5%	No changes to benefits
A total blended rate of 19.5% or more but less than 21.5%	Approximately[5] 32.5% of the "new funding" above 19.5% to be met through benefit reductions until the blended contribution rate reaches 21.5%
A total blended rate of 21.5% or more but less than 22.6%	Approximately[5] 50% of the "new funding" above 21.5% to be met through benefit reductions until the blended contribution rate reaches 22.6%
A total blended rate of 22.6% or more	100% of the "new funding" above 22.6% to be met through benefit reductions

Benefit reductions will be deemed 'temporary' for purposes of this Statement and will be subject to prospective restoration pursuant to the *Reserve Management* section of this Statement. Retrospective restoration of temporary benefit reductions will not occur until the *Surplus Management* section of this Statement is invoked.

4 *Contribution rates comprise of two components:*

(i) Normal cost rates which, based on actuarial advice received by the SC, generally reflect the normal cost (or current service cost) of the Primary Plan; and

(ii) Rates over and above the normal cost rates which are used for the purpose of minimum required deficit funding.

5 *Given the nature of defined benefit plan terms it may not be possible to determine benefit reductions which exactly meet the noted proportions. Judgement must be exercised to ensure that the objectives of this Statement are met, and that the resulting Plan terms are practical.*

Administrative practicalities, in terms of the lead time required to implement any benefit changes and the materiality of the benefit changes, should be considered by the SC during its review of specified change proposals pursuant to By-Law No. 12.

For greater clarity, the benefit reductions effective January 1, 2013 which were approved by the SC prior to formal approval of this Statement have been determined to be temporary changes and shall be treated as such in accordance with this Statement, and By-Law No. 19-01 is hereby rescinded.

ii) Reserve Management: When an Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) of between 100% and 110% inclusive, the Primary Plan is in *Reserve Management* as set out in this section. The blended contribution rate of the Primary Plan must be set at a rate which, based on the Annual Valuation, reflects the normal cost of the Primary Plan, plus an additional amount as follows:

- When the Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) below 105%, 2% (1% per side)
- When the Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) of 105% or more, but below 110%, 1% (0.5% per side)
- When the Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) of 110% or more, 0%.

When the Annual Valuation indicates both a going concern funded ratio (based on smoothed value of assets) in excess of 105%, and compliance with subsection 15(1) of the OMERS Act, any benefit reductions that were stated to be "temporary" during Deficit Management, shall be prospectively restored, or the equivalent value shall be used by the SC to provide alternate equivalent benefits, all to the extent permitted by law and the funded status of the Primary Plan. However, such benefit restoration may not result in an increase in normal cost of more than 1%. Restoration of any remaining 'temporary' benefit reductions will be deferred until the Primary Plan is in *Surplus Management*.

Reserve Management shall continue until an Annual Valuation indicates the going-concern funded ratio (based on smoothed value of assets) exceeds 110%. Thereafter, the SC shall proceed to Surplus Management hereunder.

iii) Surplus Management: When an Annual Valuation indicates a going-concern funded ratio (based on smoothed value of assets) greater than 110% the Primary Plan is in *Surplus Management* as set out in this section. At the first such instance, any remaining temporary benefit reductions (or equivalent) will be restored prospectively and the blended contribution rate of the Primary Plan will continue at a rate which, based on the Annual Valuation, reflects the normal cost of the Primary Plan. No contribution reductions or benefit improvements (beyond prospective restoration of temporary benefit reductions) shall be implemented unless the going-concern funded ratio based on the lower of the smoothed value or the market value of assets exceeds 110%.

While in Surplus Management the SC will restore temporary benefit reductions (or equivalent value) retrospectively. Following such restoration any remaining measures are intended to be implemented through a combination of decreases to contributions and increases to benefits subject to the following:

- All such measures are split equally between decreases to the blended contribution rate and increases to benefits;
- All such measures are effective for an agreed temporary period of time of no more than 3 years ("Window") unless there is an agreement to make the changes permanent; and
- No such measures are allowed if, after the implementation of the measures, the going-concern funded ratio (as defined here in paragraph 6(iii)) is expected to drop below 110%.

The term "increase to benefits" above shall not include the retroactive reinstatement of benefits lost during a period of Deficit Management.

Administrative practicalities, in terms of the lead time required to implement any benefit changes and the materiality of the benefit changes, should be considered by the SC during its review of specified change proposal pursuant to By-Law No.12.

All changes pertaining to Surplus Management measures that are stated to be "temporary" shall remain in effect (unless altered by a subsequent specified change proposal approved by the SC in accordance with By-Law No.12) during the Window or, if earlier, until an Annual Valuation indicates the going-concern funded ratio (based on the lower of the smoothed value or the market value of assets) has dropped to 110% or below.

If an Annual Valuation discloses a going concern funded ratio (based on smoothed value of assets) below 110%, the SC shall proceed to Reserve Management under paragraph 6(ii) above or Deficit Management under paragraph 6(i) above.

7. Establishment of Four Individual Contribution Rates

The four individual contribution rates (i.e. those above and below the Years' Maximum Pensionable Earnings (YMPE) and for each of the normal retirement age (NRA) groups) will be derived from the blended contribution rate based on the following process.

i) Allocation of Contribution Changes: All contribution rate changes which are effective on and after January 1, 2014 shall be allocated across NRA 60 and NRA 65 groups, and earnings above and below the YMPE using the methodology outlined below.

The difference between the blended NRA 60 contribution rate and the blended NRA 65 contribution rate will be set equal to the sum of the following:

- The estimated difference in cost associated with differences in the NRA 65 and NRA 60 benefits (Benefit Cost Differential)

- The estimated difference in cost associated with the difference in assumed future salary increases (including the "3/6/9" service related salary increases) used for the NRA 65 group versus that used for the NRA 60 group; and
- 50% of any remaining difference in the blended normal cost rates of the two groups which is not explained by the factors above (Non Benefit Cost Differential)

The contribution rates above and below the YMPE will be determined on an actuarial basis (based on periodic contribution rate studies by the OAC Actuary), for each of the NRA groups independently.

Deficit funding and surplus sharing will be split equally by using one deficit funding or surplus sharing rate for both NRA groups. Additional amounts added to normal cost during Reserve Management will be treated in the same manner as noted for deficit funding and surplus sharing.

This methodology strikes a balance amongst the principles of transparency, limited volatility, value for money, pooling, limited complexity, cost effectiveness and controllable versus uncontrollable experience.

The above costs should be reviewed by the OAC Actuary and the SC will consider whether to revise contribution rates accordingly. The next contribution rate study will be conducted in 2015. Thereafter, contribution rate studies will be conducted every three years, with timing adjusted as practical to accommodate actuarial experience studies.

ii) <u>Voluntary Filing of Annual Valuations</u>: Annual Valuations will not be filed annually, unless required by statute or specifically authorized by the SC.

iii) <u>Election to Opt-Out of Grow-In</u>: The SC elected to have the OMERS pension plans opt out of the grow-in provision under the PBA effective July 1, 2012.

Notwithstanding the methodologies provided in Sections 6 and 7, this Statement does not affect the existing terms of the OMERS pension plans, and does not create a formal amendment to the OMERS pension plans. No changes to benefits and/or contributions results solely from application of this Statement. All decisions made by the SC with respect to changes to benefits and/or contributions, either resulting from the application of this Statement or otherwise, must be enacted in accordance with SC By-Laws, and must otherwise comply with the requirements set out under the ITA, PBA, the OMERS Act and any other relevant legislation and regulations.

8. MONITORING

The funded status of the Primary Plan is reviewed on an annual basis and potential contribution or benefit changes are also considered annually. As a consequence of this annual review process, the SC may elect to file the actuarial report more frequently than required by the PBA.

In accordance with Touchpoint 2 of the Framework Agreement, the SC will review and update/confirm this Statement annually at the end of the year.

9. COMMUNICATION

This Statement must be posted on the SC website making it available to members, employers, trade unions, associations and other interested parties to the Primary Plan. Pursuant to the Framework Agreement, the SC will advise the OAC of any updates to this Statement for information.

HISTORY

Effective Date:	October 22, 2014
Last Approved by Board:	January 27, 2011, August 23, 2012, June 25, 2014 *(Note: passage of SPC#14-07 imposed a change in 7.i re contribution rate study – included in October 22, 2014 version with other changes),* October 22, 2014
Next Review:	1 year