



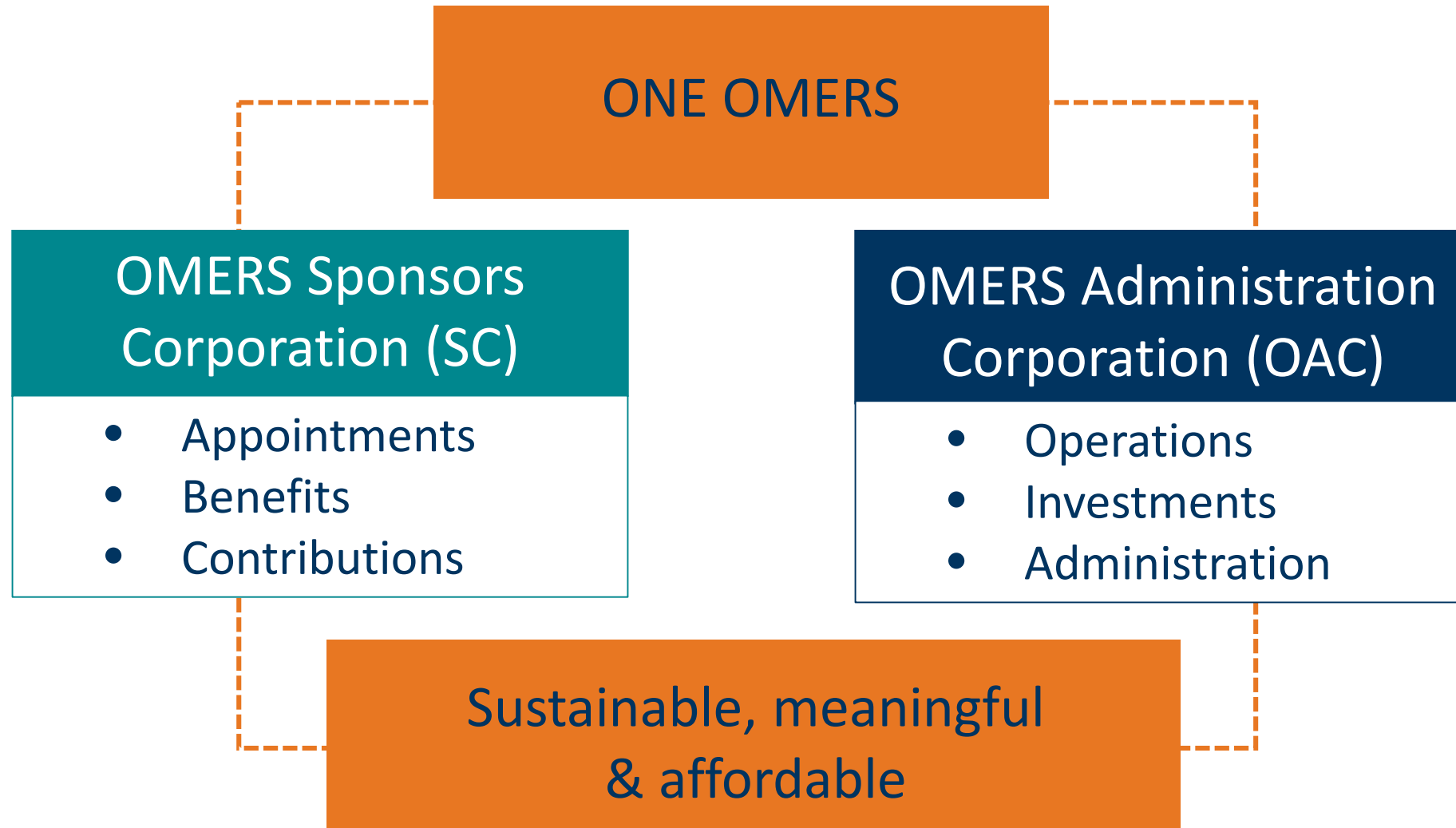
Plan for the Future

Comprehensive Plan Review

Paul Harrietha, PhD
Chief Executive Officer

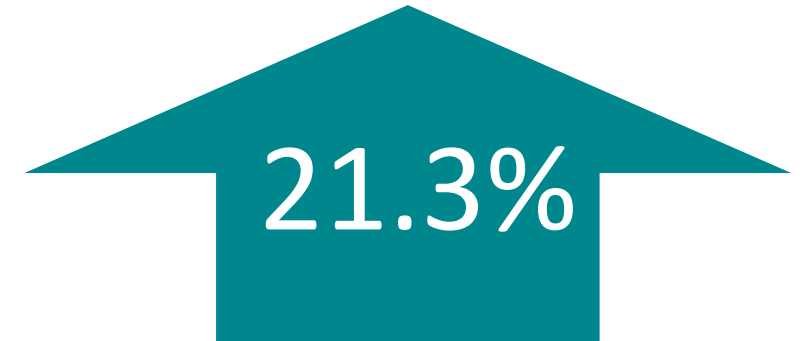
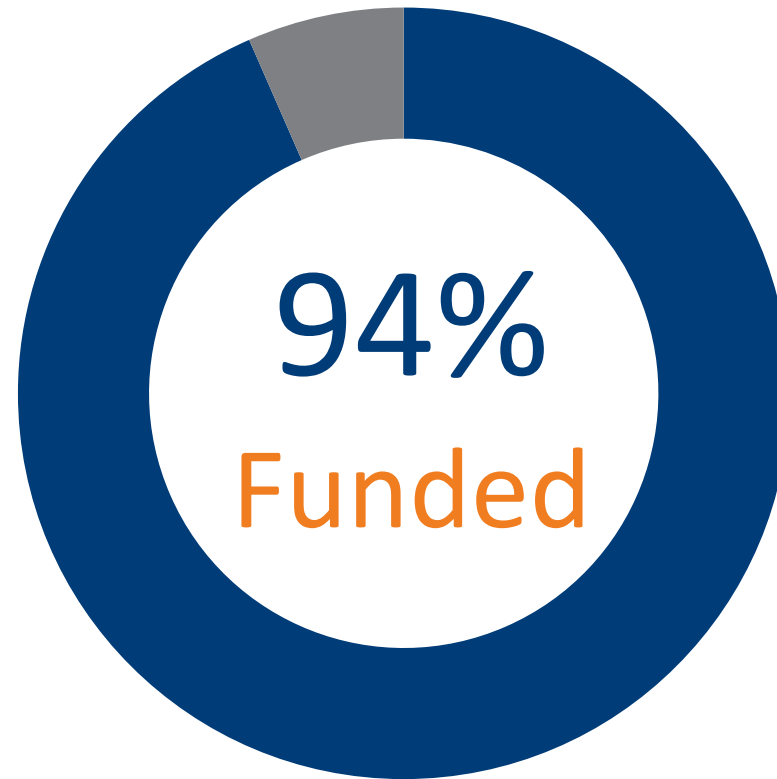


OUR GOVERNANCE STRUCTURE



11.5%
Net Return

\$95B
Net Assets



Combined
contribution
rate

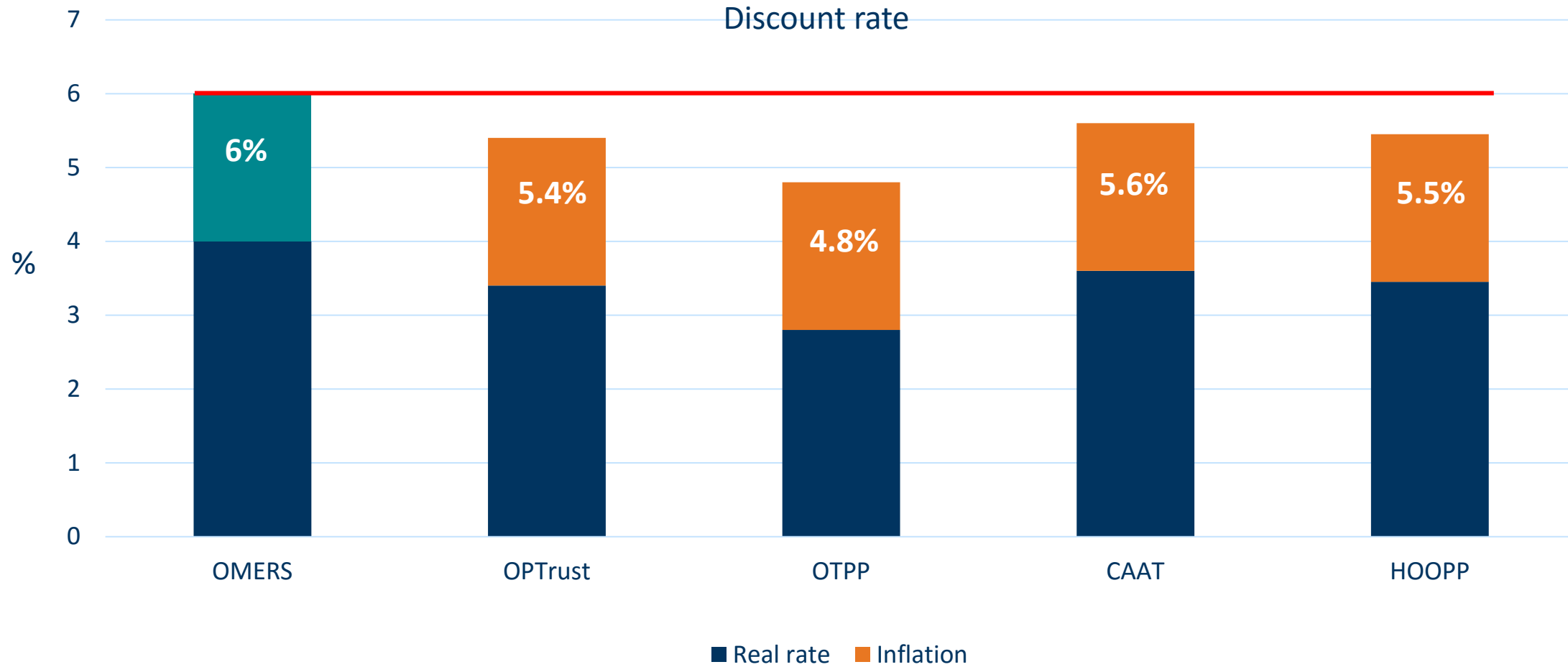
OUR FINANCIAL CHALLENGE

Plan	Funded status	Funded ratio
OMERS	(\$5.4 billion)*	94%
OPTrust	\$134 million*	101%
OTPP	\$10.3 billion*	105%
CAAT	\$2.3 billion**	118%
HOOPP	\$13.2 billion*	122%

*As at December 31, 2017

**As at January 1, 2018

OUR FINANCIAL CHALLENGE

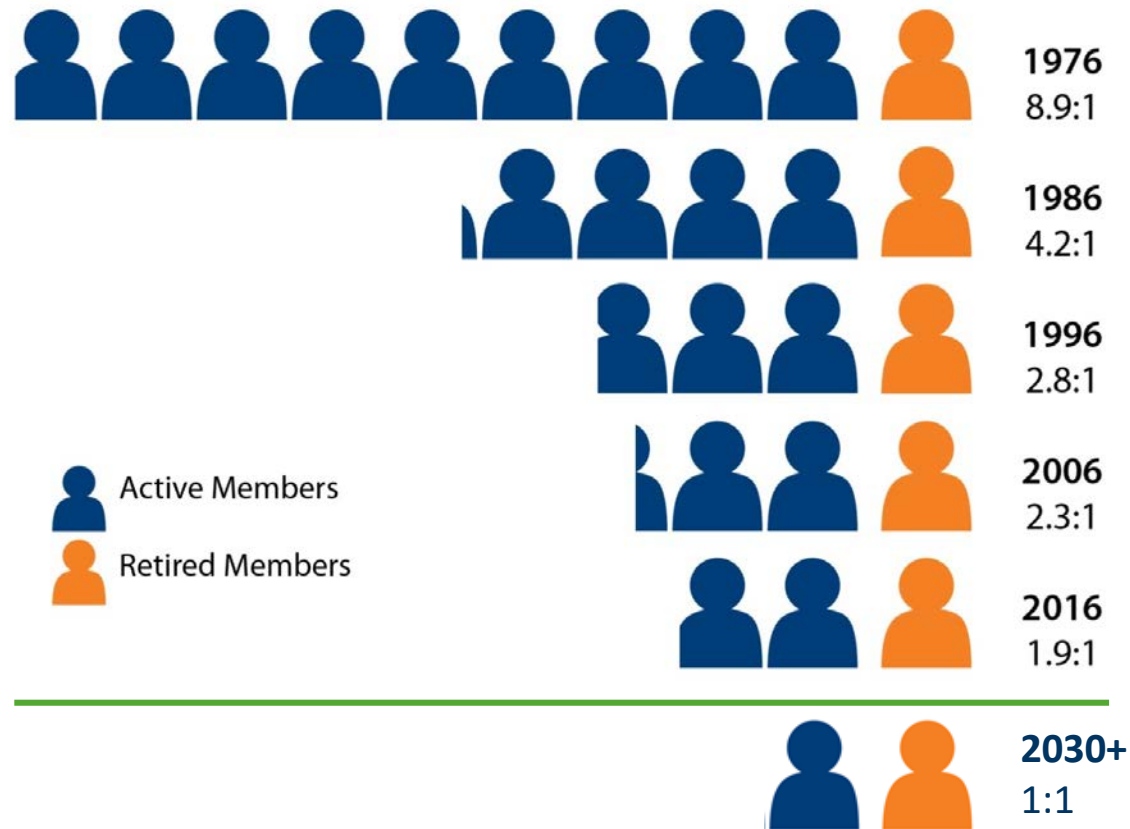




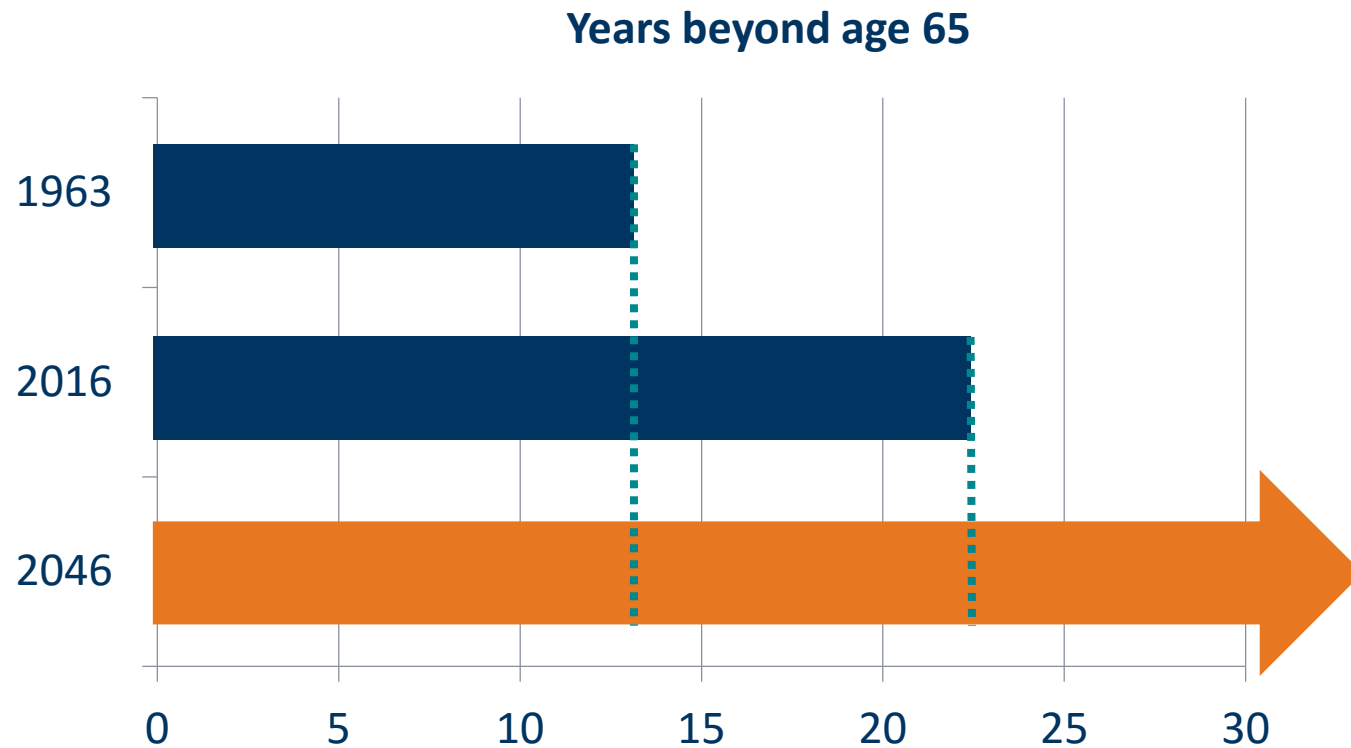
The Headwinds



PLAN MATURITY

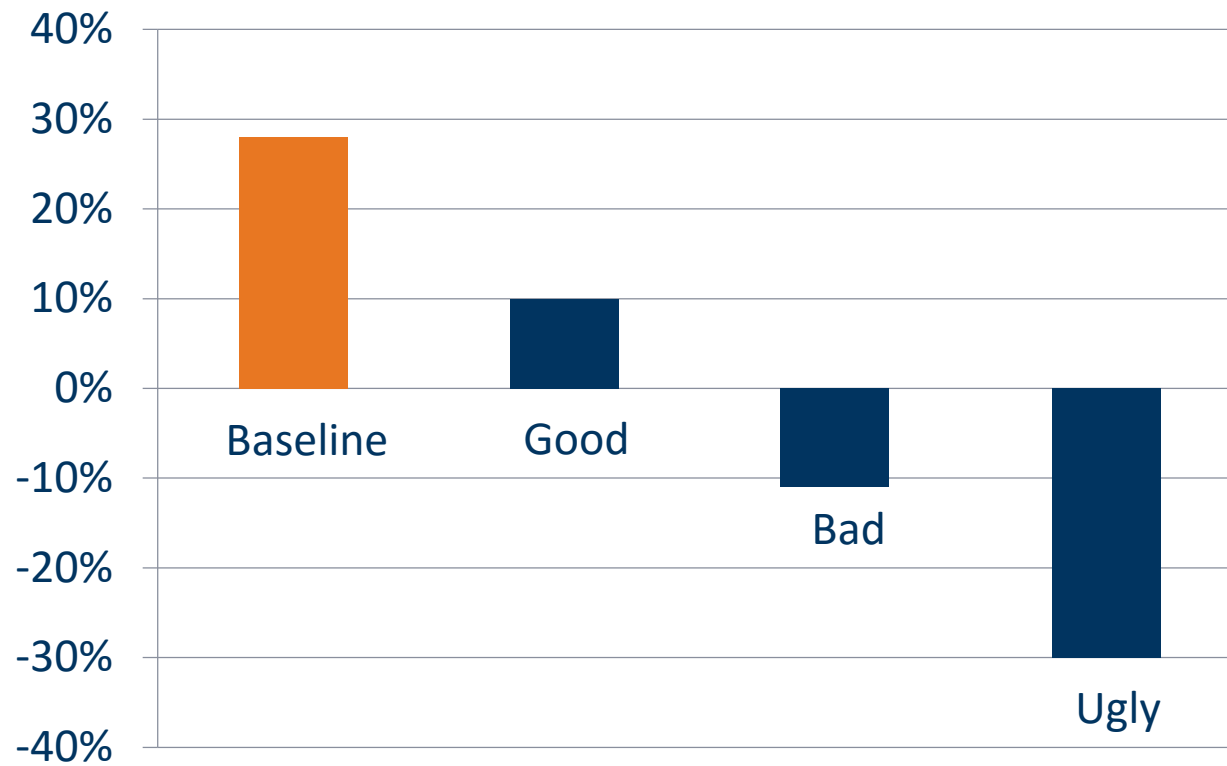


- With fewer contributing members to make up for potential investment losses, the Plan will become more vulnerable to economic downturns
- Intensifies the likelihood of negative cash flows (annual pension payments exceed contributions)



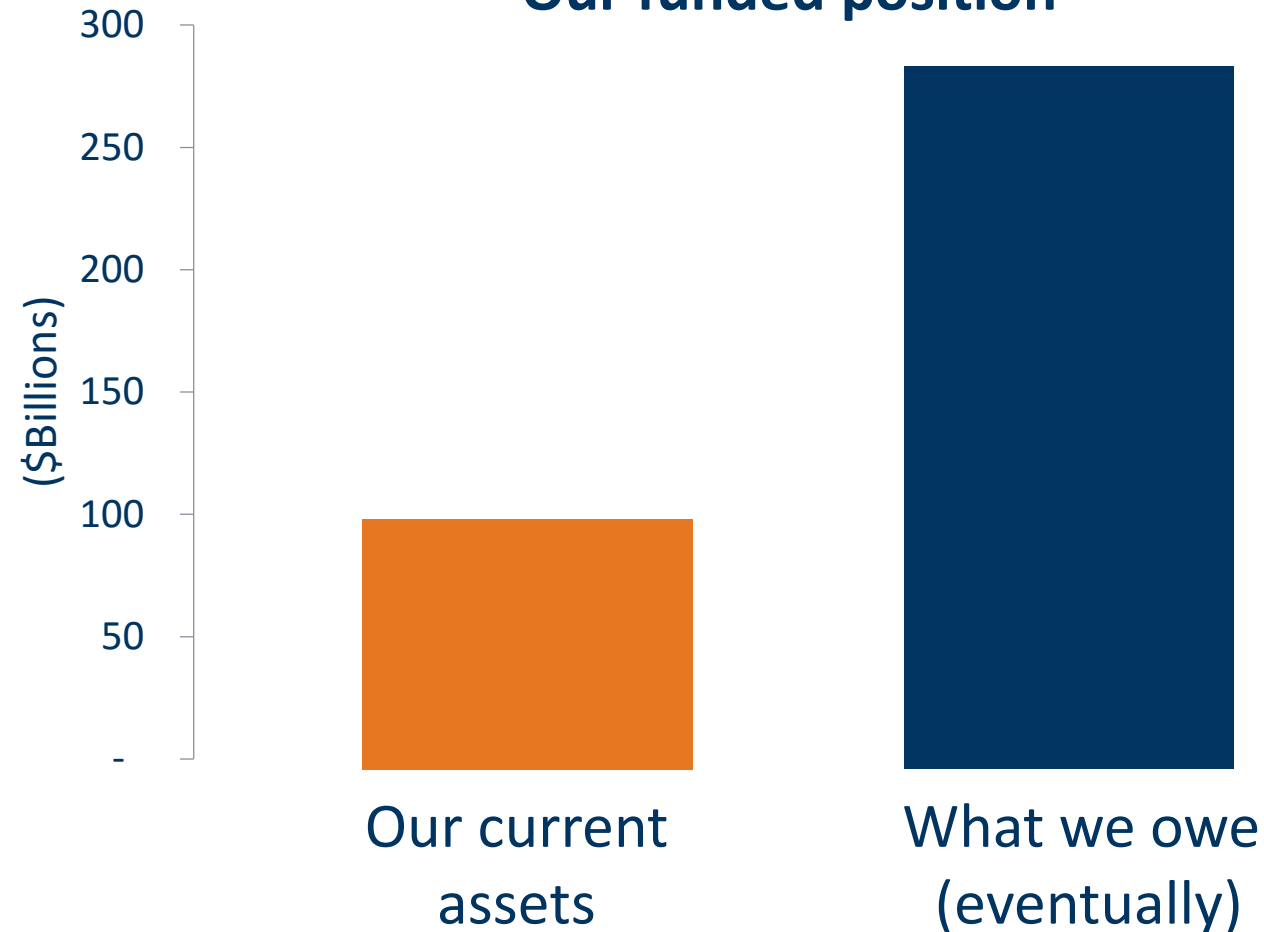
- When people collect pensions for longer periods, the result is increased Plan liabilities and, by extension, higher Plan costs

Active Membership Growth in 25 Years



- Any decline in membership intensifies our maturity challenges – and makes the Plan even more susceptible to economic shocks

Our funded position



- We are highly dependent on future investment income
- The strong investment returns of recent years are going to be difficult to match in the future
- Particularly as the world's population ages

CPP ENHANCEMENTS

- Canada Pension Plan enhancements begin in 2019
- Increases benefits – and cost for both members and employers
- We need to consider how our Plan should adjust, if at all

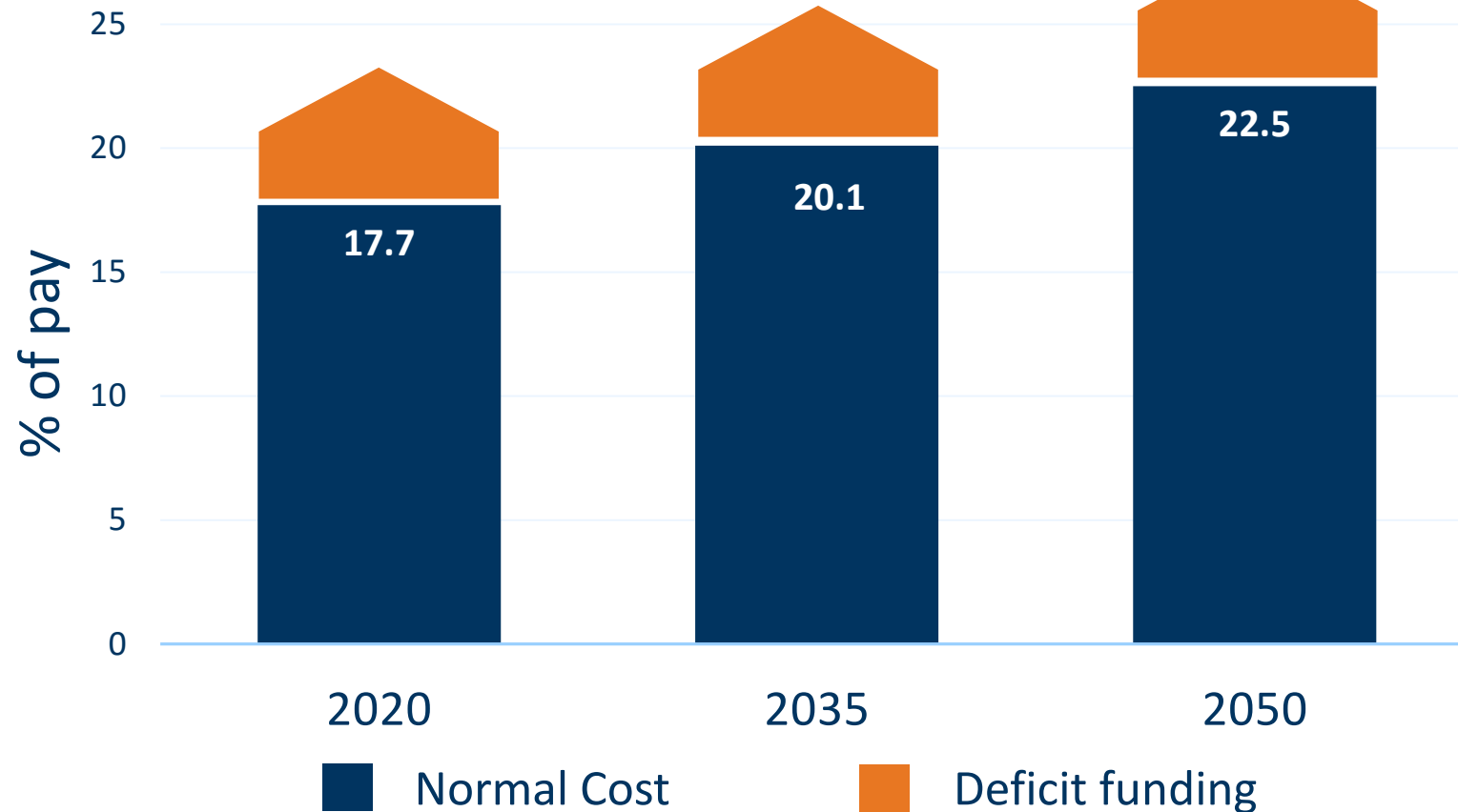




The proposed changes:
sustainable, meaningful
& affordable

MANAGING PLAN COSTS

Projected Combined Contributions



- Left unchanged, the cost of the current plan will increase steadily over time
- Strong probability that combined contributions will exceed 22.6% (the current Plan maximum)
- Remote chance that combined contributions could reach 37% by 2050

THREE PRIMARY OPTIONS

1

Pay more for the same coverage

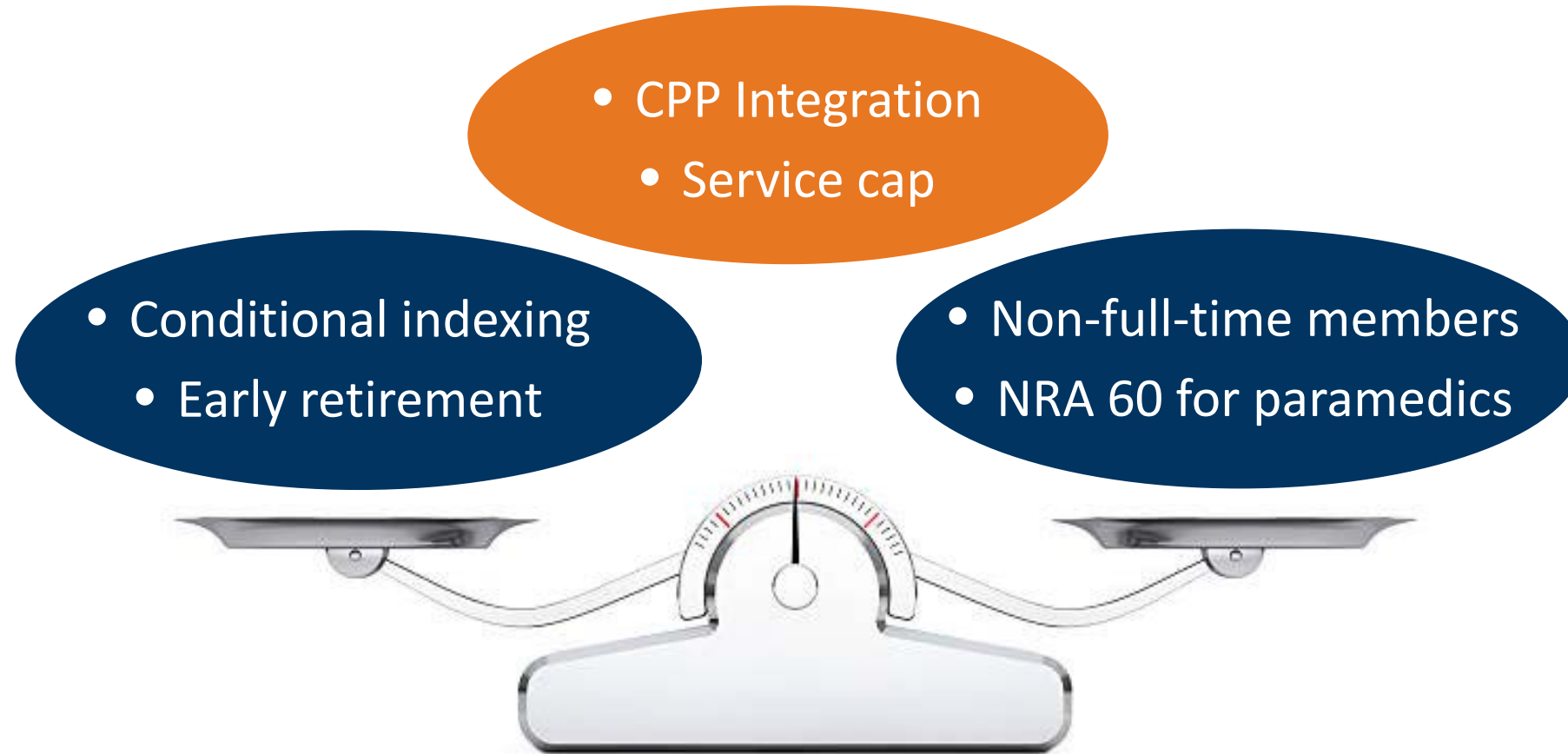
2

Pay the same for reduced coverage

3

Modernize the plan (optimize)

A BALANCED APPROACH



PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
Indexing	<ul style="list-style-type: none">• Guaranteed• Up to 6% annually based on CPI	<ul style="list-style-type: none">• Conditional, <u>subject to amended FMS</u>• Provided for retired members until 2025

Rationale:

- Addresses plan maturity / enhances risk management capacity
- Indexing based on Plan's financial health
- During difficult times, adjustments reduced or suspended on a temporary basis
- Provides a lever to manage economic uncertainty
- Enhances potential for intergenerational equity

PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
Accrual rate	<ul style="list-style-type: none">1.325% / 2% integrated with Year's Maximum Pensionable Earnings (YMPE)	<ul style="list-style-type: none">1.325% / 2% integrated with new Year's Additional Maximum Pensionable Earnings (YAMPE)

Rationale:

- Recognizes the enhanced CPP – benefits and costs
- Allow members to accrue a larger combined pension
- OMERS and CPP produces a gross replacement rate of 74% – 80% (currently 70%)

PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
Early retirement	<ul style="list-style-type: none">• 30 years of service or 90 (85) points• Age/points based on “eligible” service• 5% reduction per year or point prior to above	<ul style="list-style-type: none">• 30 years of service or 90 (85) points, plus age 60 (55)• Age/points based on “contributory” service• Actuarial equivalent to NRA

Rationale:

- Partially reflects the impact of longer lifespans and enhanced vitality
- Acknowledges that people are joining the plan at later ages than in the past and won't benefit (but will pay for) early retirement enhancements

PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
Service limit	<ul style="list-style-type: none">• 35 years	<ul style="list-style-type: none">• None

Rationale:

- Addresses longevity and extended careers (member flexibility and choice)
- Allows affected members to accrue a larger pension while earning an income
- Requires additional contributions if the member works beyond 35 years

PRELIMINARY DECISION

Provision	Current Plan	Draft Plan
Non-full-time members	<ul style="list-style-type: none">• Optional for non-full-time members who work 700 hours or earn 35% of YMPE (2 consecutive calendar years)	<ul style="list-style-type: none">• Mandatory• Member can opt out if earning less than 35% of YMPE (~\$20,000)
NRA 60 for paramedics	<ul style="list-style-type: none">• Optional for police and fire	<ul style="list-style-type: none">• Optional for police, fire and paramedics

Rationale:

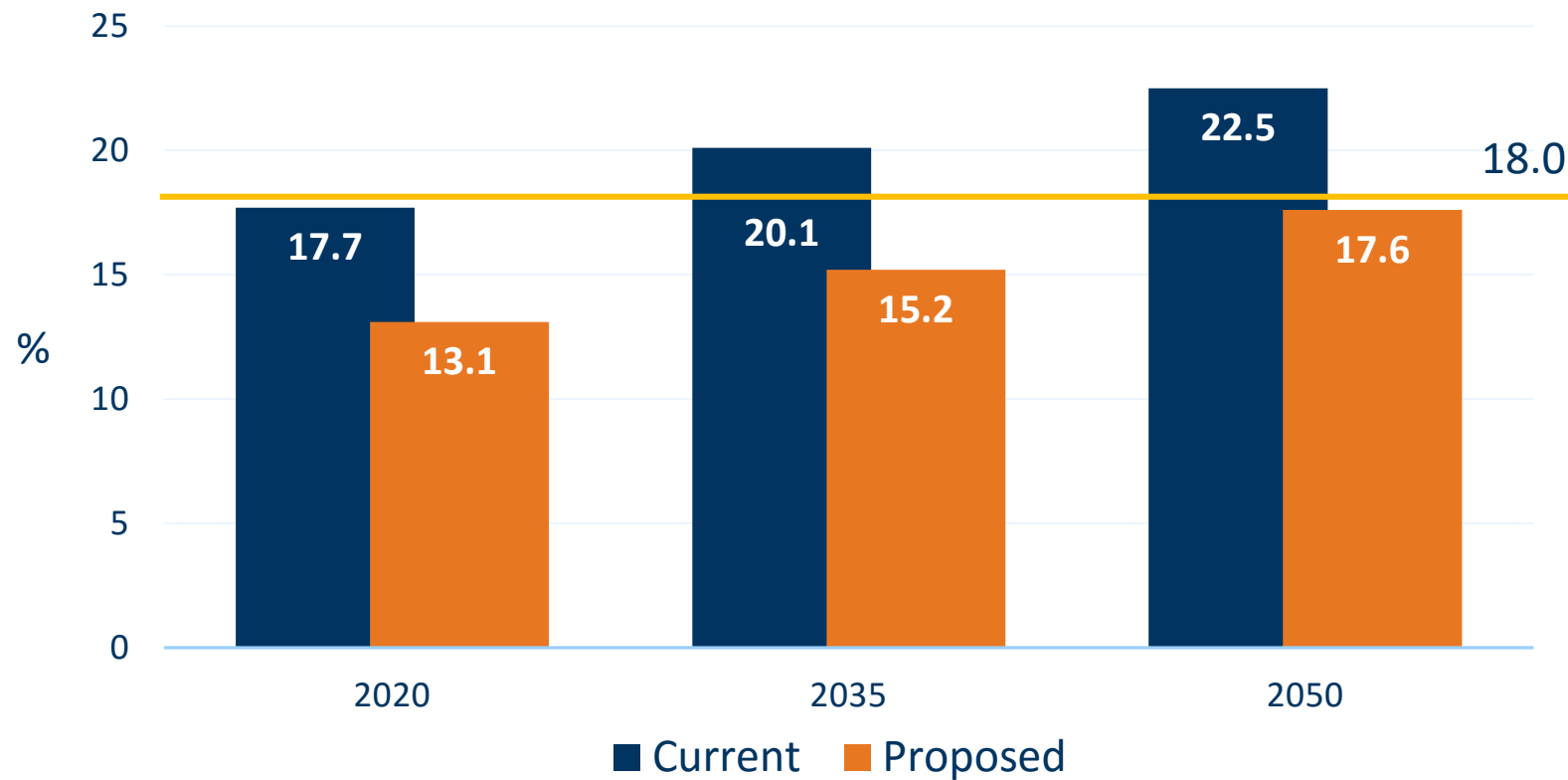
- Recognizes emerging workforce trends and broader DB coverage
- Helps to address Plan maturity (additional active membership)
- NRA 60 for paramedics ensures equitable treatment of affected members

- Changes are subject to 2/3^{rds} affirmative vote
- Unlikely to be adopted before January 1, 2021
- All changes are forward looking (would not impact past service)
- Any changes would have NO IMPACT on:
 - Current retirees (and those who retire before the effective date)
 - Benefits that active members accrue (earn) up to the effective date
- For example, if conditional indexing is adopted, members would receive:
 - Full indexing for service up to the effective date, plus
 - Conditional indexing on that portion of their service following the effective date



Financial impacts (sustainability)

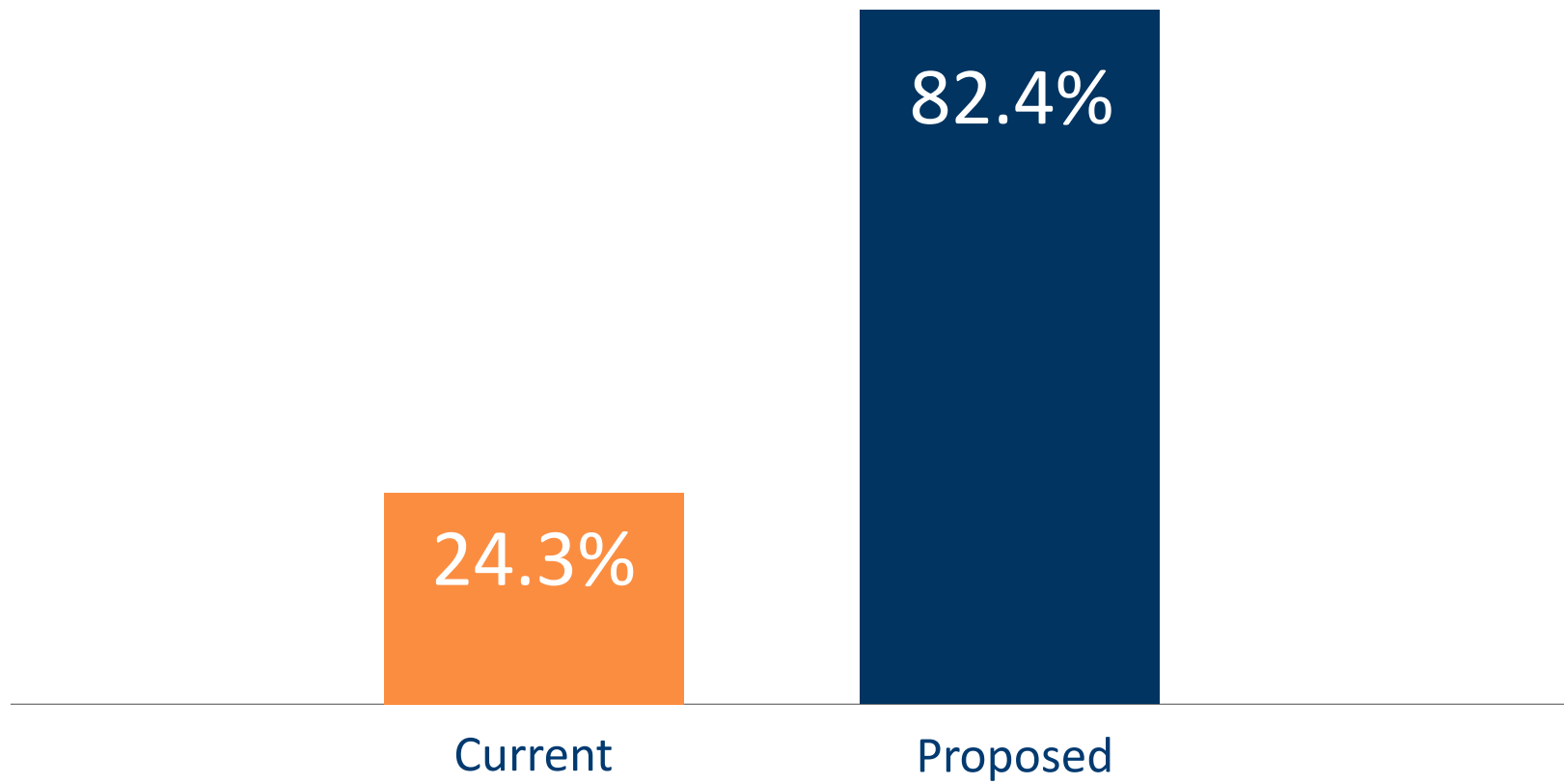
Projected Normal Cost



- Enhances Plan sustainability
- Reduces normal cost (the cost of providing guaranteed benefits) by almost 5 percentage points circa 2050
- Provides an essential safety valve against unforeseen events
- The “savings” used to fund conditional indexing

IMPROVED AVERAGE CONTRIBUTION RATES

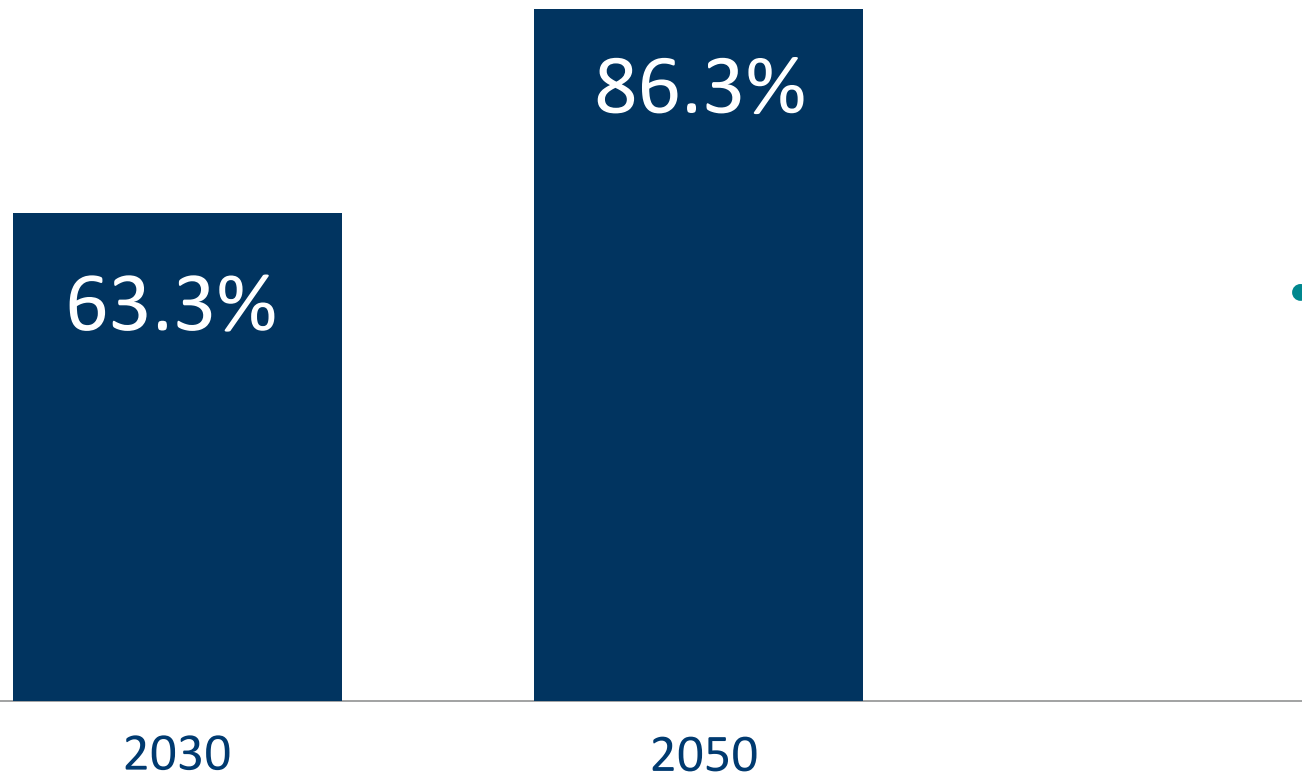
Percentage chance of average being below 22.6% over 30 years



- The proposed changes would enhance affordability
- An 82.4% chance that the average contribution rate will be below 22.6% by 2050
- There is only a 24.3% chance that the average contribution rate will be below 22.5% under the current Plan

CONDITIONAL INCREASES

Average portion of CPI granted

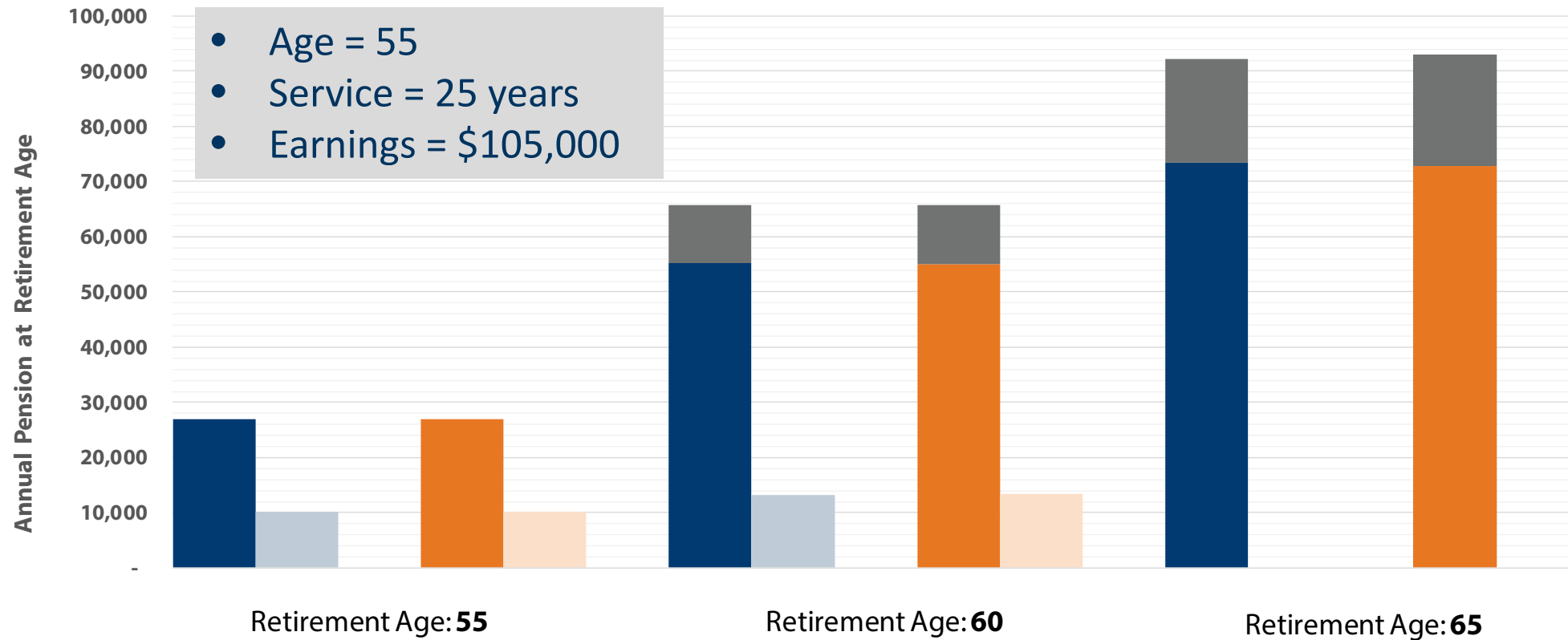


- Based on the proposed changes, it's estimated that:
 - 63.3% of total indexing will be granted by 2030
 - 86.3% of total indexing will be granted by 2050
- Includes restoration of “lost” payments based on the Plan’s financial health



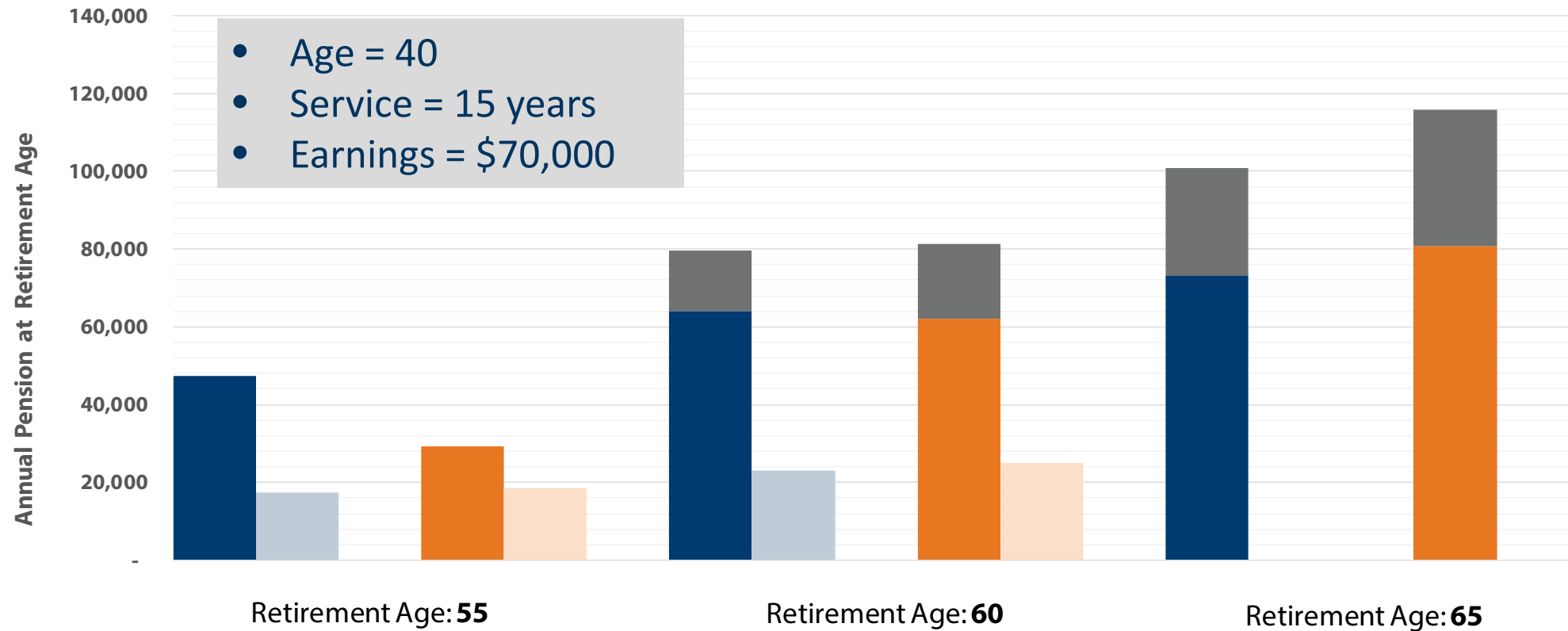
Member impacts: NRA 65

1. LONG SERVICE



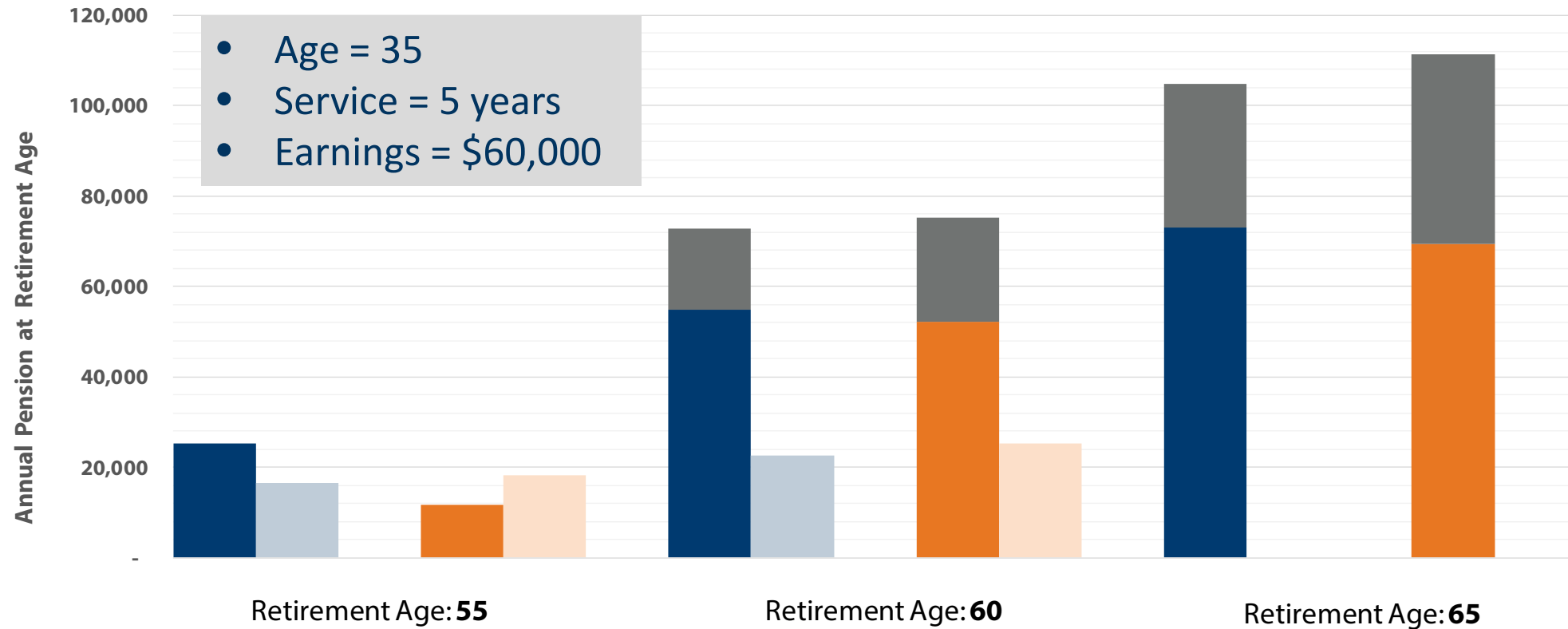
- Provides an increase at age 65 (due to the enhanced CPP)
- Guaranteed indexing and early retirement provisions preserved for pre-amendment service

2. SPLIT SERVICE



- By design, the members combined benefit is Lower at age 55 and higher at age 65
- Rebalancing reflects longevity and early retirement trends

3. SHORT SERVICE



- By design, the members combined benefit is Lower at age 55 and higher at age 65
- Rebalancing reflects longevity and early retirement trends

- ✓ The SC Board is responsible for assessing the Plan's health on a regular basis and proposing appropriate changes (benefits and contributions)
- ✓ Despite strong recent results, OMERS remains financially vulnerable
- ✓ Like all major pension plans, we face a number of realities (headwinds) that are beyond our immediate control
- ✓ Left unchecked, the cost of the current Plan will rise steadily over time – and substantially under some scenarios
- ✓ If adopted, the possible plan changes will dramatically improve Plan sustainability and affordability over time



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Corporation