

# BULLETIN

## OMERS Backgrounder to April 20, 2018 COTAPSA Bulletin

A number of members have asked questions about OMERS since COTAPSA's April 20<sup>th</sup> Bulletin that drew attention to possible benefits changes under consideration over the next 6 to 8 weeks by the OMERS Sponsors Board of Directors (SC). The following brief overview of COTAPSA's involvement with OMERS governance activities in recent years has been prepared for your information.

COTAPSA wants to ensure that OMERS is governed in the most transparent and accountable manner. We have a history of providing input, raising concerns and offering suggestions to OMERS at many points throughout each year. We encourage our members to stay informed about OMERS by visiting [www.omers.com](http://www.omers.com), or attending any OMERS hosted meetings or member education sessions. OMERS is located at 100 Adelaide Street West, only two blocks from City Hall and, members should not hesitate calling (416) 369-2400 for an appointment to discuss their pension. **The more informed and involved OMERS members are, the stronger OMERS will be.**

OMERS is a jointly-governed 'risk-sharing' plan, meaning that members and employers share the legal obligation for funding the pension plan, **not sponsor organizations** (with the exception of the City of Toronto, and CUPE locals 416 and 79). Indeed, it is individual employees and employers that bear responsibility for their respective portion of OMERS assets and liabilities. This fact is not well known.

OMERS spent \$3.8 million of member's monies in 2017 for two boards (SC and AC) comprised of 29 Directors, who held 90 meetings to govern a \$95B pension plan. By way of comparison, Ontario Teachers', an \$189.5B pension plan, in 2017 spent \$1.45 million of member's money for remuneration, conference and travel expenses for 11 Directors who held approximately 33 board/committee meetings.

Operating expenses in 2017 for OMERS SC and its Board of Directors cost OMERS members **\$2,373,444**. (See Attached from OMERS 2017 Annual Report). *What important pension matters did the SC Board of Directors wrestle with you might ask? ... We do not know.* However, we do know that 14 SC Directors held approximately 37 board/committee meetings and spent over \$881,861 in Director compensation, conferences, travel, and board expenses. Yet, on the OMERS website the SC has not updated its online "Board Meeting Summaries" since June of 2017. <https://www.omers.com/Sponsors/Governance/Meeting-Summaries> Try to imagine in your work world where the City Clerk or designated administrator did not update your

organization's website; agendas, reports, and meeting minutes were not published; and ratepayers were denied access to routine meetings. This is the case at the OMERS SC.

In 2016, after years of unproductive meetings with OMERS, COTAPSA lead a group of like-minded local government and education sector organizations in writing to the Financial Services Commission of Ontario (FSCO) regarding accountability issues primarily focusing on the OMERS SC. COTAPSA has been advocating strongly since 2006 for representation on both the Sponsors Corporation (SC) and Administration Corporation (AC) on behalf of the over 57,000 management/non-union contributors to the OMERS. The 2016 letter's purpose was to make FSCO, OMERS sponsor organizations, OMERS, the Ontario government and its opposition parties aware of OMERS governance model issues encountered on our path to representation.

The OMERS Act, 2006 created a Sponsors Corporation (SC) with a new 14-member board that was believed by all to have replaced the Ontario government as plan sponsor. We were concerned and remain so that the OMERS Act, 2006, enabled a bicameral governance model with undue complexity and which, over the course of 12 subsequent years, has cost 30 million dollars of OMERS members' money to fund SC operations to execute its responsibilities. In comparison, the much larger Teacher's pension fund apparently performs the same key "sponsor" responsibilities through a six-member Partners' Committee at a small fraction of the costs of OMERS SC, usually in much shorter timeframes and with far less complexity – and often with actual input from members.

The Sponsor organizations named in SC's Composition By-law, and our April 20<sup>th</sup>, 2018 template letter, are to be "stewards" of the OMERS pension plan. In this role, these "Sponsors" must ensure their SC actions are held to the highest standard of openness and accountability. Yet, a few of these Sponsors don't make any effort to publicize their critical role in OMERS governance on their websites, in Annual Reports, or in communications with their membership.

OMERS beneficiaries need an explanation from each and every Director on the SC Board as to why it is spending so much of the members' money to maintain the SC as a "corporation" and not as a committee, like other Ontario public plans.

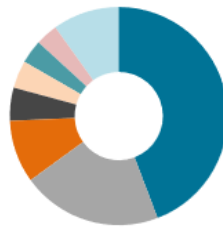
More worrisome is the absence of the Province from OMERS governance. The Ontario Government and OMERS stated in 2006 that the OMERS Act, 2006, "*fully devolved ownership to the employers and plan members who fund the plan and its benefits.*" Yet, almost 32% of current OMERS employer contributions come from Boards of Education and Children's Aid Societies - funded entirely by the Government of Ontario. (See attached, Moody's April 18, 2018 Rating Action) One might argue that when municipal programs under the control of the provincial government (and only partly funded from property taxes) are included, the percentage of pension contributions from the Ontario Government to OMERS rises to approximately two thirds of the total annual contributions. Our point is that for all intents and purposes the Ontario Government remains OMERS largest employer. As such, COTAPSA wants the Ontario Government to re-engage immediately in OMERS joint governance and retake its seat on the SC and AC.

COTAPSA continues to advocate for a more inclusive model of sponsor representation on the OMERS boards. We seek a sponsor governance model that is as efficient and effective as possible, with full transparency and decisions made collaboratively through a "committee" of employer and active members as equals, with equal information.

Please see the following attached items:

1. OMERS Member Affiliation Summary, as of December 31, 2018
2. OMERS Sponsors Corporation Board Remuneration and Expenses for 2017
3. OMERS Administration Corporation Board Remuneration and Expenses
4. Role and Responsibilities of the OMERS Administration Corporation Board of Directors
5. Role and Responsibilities of the OMERS Sponsors Corporation Board of Directors
6. Moody's April 18, 2018 Rating Action

[https://www.omers.com/About-OMERS/OMERS Governance/2017 Member Affiliation Summary](https://www.omers.com/About-OMERS/OMERS_Governance/2017_Member_Affiliation_Summary)



● CUPE	44.2	● MGMT/NON-UNION	20.8
● POLICE	9.3	● OSSTF	4.9
● FIRE	4.1	● OPSEU	3.5
● ATU	3.3	● Member affiliations with less than 3% of active members	9.9

### Member Affiliation Legend

## OMERS Sponsors Corporation Board Remuneration and Expenses

	2017		2016	
	Remuneration <sup>(i)</sup>	Expenses <sup>(ii)</sup>	Remuneration	Expenses
Love, Marianne (Co-Chair)	\$ 80,000	\$ 20,714	\$ 75,000	\$ 18,928
Ramagnano, Frank (Co-Chair)	80,000	8,623	75,000	6,651
Axford, Dan	38,500	22,664	35,800	14,028
Bailey, Paul <sup>(iii)</sup>	45,000	16,183	40,800	25,469
Biro, Fred <sup>(iii)</sup>	45,000	14,959	40,800	5,138
Brown, Barry	38,500	11,197	35,800	5,016
Clarke, Diana	38,500	12,714	35,800	11,645
Derochie, Peter <sup>(iii)(iv)</sup>	45,000	11,042	—	—
Macaluso, Charlie	38,500	838	35,800	1,075
Maguire, Tim	38,500	4,386	35,800	2,242
McConville, Mary	38,500	16,107	35,800	7,665
McNally, Wayne <sup>(iii)</sup>	—	300	40,800	3,044
O'Keefe, Brian <sup>(iii)</sup>	—	30	40,800	3,014
Pennachetti, Joe	38,500	17,456	35,800	1,593
Sahli, Sandra <sup>(iii)</sup>	45,000	21,295	35,800	17,206
Weatherup, John <sup>(iii)</sup>	38,500	—	—	—
Other Expenses <sup>(iii)</sup>	38,109	17,244	32,814	15,122
<b>Total</b>	<b>\$ 686,109</b>	<b>\$ 195,752</b>	<b>\$ 632,414</b>	<b>\$ 137,836</b>

## Statement of Operations

For the year ended December 31,	2017		2016	
<b>Revenues</b>				
OAC expense reimbursement	\$	2,373,444	\$	2,004,875
	\$	2,373,444	\$	2,004,875
<b>Expenses</b>				
Contract and administrative salaries (i)	\$	943,071	\$	811,171
Legal		113,978		53,364
Audit		8,475		8,475
Actuarial		3,769		6,992
Professional advisors		228,606		199,592
Other administrative		111,118		72,465
Insurance		82,566		82,566
Board remuneration including payroll taxes and benefits (note 3)		686,109		632,414
Board expenses (note 3)		195,752		137,836
	\$	2,373,444	\$	2,004,875
Excess/(Deficit) of Revenues Over Expenses from Operations	\$	—	\$	—

(i) Includes payroll taxes and benefits.

## OMERS Administration Corporation Board Remuneration and Expenses

	2017		2016	
	Remuneration <sup>(a)</sup>	Expenses <sup>(a)</sup>	Remuneration	Expenses
Cooke, George (Chair)	\$ 167,000	\$ 6,878	\$ 152,000	5,386
Aziz, William	82,000	—	69,500	6,899
Baker, Monty	82,000	13,745	69,500	5,121
Beatty, David	67,000	203	62,000	9,104
Beggs, Darcie <sup>(a)</sup>	67,750	25,688	15,500	3,572
Butt, Bill	82,000	1,945	69,500	2,614
Elliott, Paul <sup>(a)</sup>	67,000	32,558	—	—
Fenn, Michael	82,000	908	69,500	2,511
Hutchinson, Laurie	65,000	2,624	60,000	5,363
Inskip, Cliff	67,000	9,743	62,000	16,998
Mueller, Charlene	67,000	14,282	46,500	15,420
Phillips, James	82,000	13,883	69,500	18,338
Somerville, Penny	74,500	7,980	62,000	5,686
Swimmer, Eugene	69,000	14,496	70,000	24,043
Tsubouchi, David	68,500	14,079	68,000	8,722
Vandenberk, Sheila	750	66	68,000	1,868
Weatherup, John <sup>(a)</sup>	—	—	62,000	1,394
Other Expenses <sup>(a)</sup>	—	41,328	—	62,142
<b>Total</b>		<b>106</b>	<b>1,075,500</b>	<b>195,179</b>

### **Role and Responsibilities of the OMERS Administration Corporation Board of Directors**

1. Plan Administrator and operating policy' approvals
2. Financial stewardship of OMERS plans
3. Appointment of OMERS actuary and auditor
4. Approve investment policies and asset allocation
5. Reporting and communication to members and other parties
6. Hire CEO and establish compensation for management
7. Technical support to the Sponsors Corporation

### **Role and Responsibilities of the OMERS Sponsors Corporation Board of Directors**

1. Represent sponsor organizations named in the SC Composition Bylaw
2. Determine terms for employer participation
3. Define composition, remuneration and administer appointments to the SC and OAC Boards
4. Appoint the OAC independent board chair
5. Make decisions on plan benefits / design / contributions
6. File OMERS annual report with FSCO
7. SC expenses reimbursed by OAC and a levy provision (as per OMERS Act, 2006)
8. Plan growth with 3rd parties

## Rating Action:

### Moody's affirms Aaa rating of OMERS Administration Corporation; outlook changed to negative

18 Apr 2018

Toronto, April 18, 2018 -- Moody's Investors Service, ("Moody's") announced today that it has affirmed the long-term issuer rating of Aaa and a short-term issuer rating of P-1 to OMERS Administration Corporation (OMERS). In addition, the rating agency affirmed the backed short term Prime-1 rating to OMERS Finance Trust's (OFT) commercial paper program. The outlook on OMERS long-term issuer rating has been changed from stable to negative following the change in outlook of OMERS' sponsor anchor, the Province of Ontario (Ontario, Aa2 negative).

#### RATINGS RATIONALE

OMERS is the legal entity responsible for managing the assets and administering benefit payments of the Ontario Municipal Employees Retirement System. The pension plan administered by OMERS is funded by employer and employee contributions of various municipal public sector entities in Ontario. Because these contributions are primarily sourced by both municipal and provincial tax bases, we believe their creditworthiness to be a combination of the creditworthiness of Ontario's major municipalities and the province. Moody's-rated municipalities and related public sector entities within the province comprise about 24% of OMERS contribution base by membership; therefore we place a higher reliance on the rating for Ontario to assess sponsor creditworthiness.

OMERS' long-term issuer rating of Aaa, which is two notches above Ontario, is based on: (1) our assumption that its creditors have an effective priority claim on the fund's assets; (2) moderate adjusted leverage of 19% as of 31 December 2017; (3) a clear public policy mandate to supplement post-retirement benefits to retired municipal workers in the Province of Ontario; and (4) strong coverage of obligations by high quality liquid assets. Under Moody's Government-Related Issuers methodology, creditor-preferred public pension managers with leverage below 25% are eligible for two notches above the sponsor.

OFT's Prime-1 rating is based on the guarantee from OMERS and Moody's expectation that OFT will have access to bank credit facilities to backstop at least seven days of outstanding commercial paper maturities. Moody's assessed the strength of this guarantee using its Rating Transactions Based on the Credit Substitution Approach methodology.

As the long-term rating is Aaa, an upgrade is not possible. The following factors could lead to a ratings downgrade of OMERS and/or OFT: (1) a change in provincial legislation that would permit municipal employees to seek an alternative pension provider; (2) a material reduction in OAC's liquid asset coverage or removal of bank credit facilities; (3) deterioration in the weighted average creditworthiness of its sponsor anchor or the Government of Canada; (4) a sustained increase in leverage above 25%; and (5) legal precedent that casts doubt on creditor priority of claim.

OMERS was established in 1962 by the Province of Ontario as a jointly-sponsored, multi-employer pension plan to manage pensions of 482,000 municipal employees, transit workers, emergency first responders, non-teaching staff of school boards and other public sector employees and retirees in the province. It had CAD106 billion in gross assets as of 31 December 2017.

The principal methodology used in these ratings was Government-Related Issuers published in August 21, 2017. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance

with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entities or their designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for additional regulatory disclosures for each credit rating.

[https://www.moodys.com/research/Moodys-affirms-Aaa-rating-of-OMERS-Administration-Corporation-outlook-changed--PR\\_382473?WT.mc\\_id=AM%7eRmluYW56ZW4ubmV0X1JTQl9SYXRpbmdzX05ld3NfTm9fVHJhbnNsYXRpb25z%7e20180418\\_PR\\_382473](https://www.moodys.com/research/Moodys-affirms-Aaa-rating-of-OMERS-Administration-Corporation-outlook-changed--PR_382473?WT.mc_id=AM%7eRmluYW56ZW4ubmV0X1JTQl9SYXRpbmdzX05ld3NfTm9fVHJhbnNsYXRpb25z%7e20180418_PR_382473)