

October 29, 2021

Mr. George Cooke
Chair
OMERS Administration Corporation (AC) Board of Directors
900 -100 Adelaide Street West
Toronto, ON
M5H 0E2

Attention Ms. Pat Nolan, Director, Board Secretariat

Dear Mr. Cooke and AC Directors:

Before turning the page on 2021, COTAPSA wishes to register its concern about OMERS' reported 2020 investment management and pension administration expenses. We believe it is essential as your Board goes through its 2022 planning and budget process to hear our concerns about the chronically high costs of our pension plan.

Unlike other Ontario public pension plans, OMERS has significant underfunded liabilities despite its \$105 billion in net assets. In 2020, you reported a gap of \$3.2 billion, and our liabilities increase each year. Couple this challenge with weak and erratic net returns on assets (and lower projected future returns) with maximized pension contributions from increasingly fewer members, and we have members and employers increasingly worried if they can afford the cost of OMERS pensions.

The OMERS investment strategy is supposed to gain Plan value at a reasonable price. However, we were discouraged by what we saw in the 2020 Annual Report as a lack of progress and commitment to genuinely decreasing pension administration and investment management costs. Despite your assurances that the OMERS boards have a robust process for reviewing budget expenses, expense figures in the NOTES section suggest otherwise.

We offer the Ontario Teachers' Pension Plan (Teachers') as a reference point. Compared to Teachers' (including Cadillac Fairview admin costs), which incurred \$714M in expenses, or .32% of \$221B of assets, for an 8.6% net investment return, OMERS (without Oxford admin costs) incurred \$370 million in operating expenses, or **.35%** of \$105B of assets, to administer a -2.7% loss. As we have mentioned on previous occasions, the profile of the plans is similar. However, OMERS (see attached notes) is constantly more expensive and given that Teachers' asset base is more than twice the size of OMERS, how does OMERS account for these extreme variances? For example:

- OMERS investment management 2020 expenses for Travel and Communications were \$15 million while OTPP was \$5.3 million
- OMERS pension administrative 2020 expenses on Travel and Communications were \$6 million while OTPP was \$0.6 million

OMERS two boards like to report that costs matter and expenses are effectively managed. Therefore, please tell members specific efforts the two Boards and management have taken to

reduce pension administration and investment management costs in recent years, including improvements to financial reporting, benchmarking, and cost controls.

We genuinely hope that OMERS maximizes net investment returns in 2021. Next year COTAPSA will continue to closely examine OMERS operating expenses and look for genuine efforts by the two Boards of Directors overseeing the management of the business and affairs of OMERS to improve financial reporting and cost controls and compare how peer funds are managing costs.

Sincerely,

A handwritten signature in black ink that reads "M. MAJOR". The letters are bold and slightly slanted, with a casual, professional style.

Mike Major
Executive Director

Attachments:

OMERS 2020 Annual Report Note 12 and Teachers' 2020 Annual Report Note 11

Teachers' 2020 Annual report

Note 11. Administrative expenses

(A) INVESTMENT EXPENSES

(Canadian \$ millions)	2020	2019
Salaries, incentives and benefits	\$ 426.6	\$ 387.2
Premises and equipment	65.5	60.8
Professional and consulting services	80.0	89.2
Information services	33.8	31.4
Communication and travel	5.3	21.4
Custodial fees	8.5	10.4
Statutory audit fees	3.8	3.1
Board and committee remuneration	1.2	1.2
Other	6.6	10.2
	\$ 631.3	\$ 614.9

(B) MEMBER SERVICES EXPENSES

(Canadian \$ millions)	2020	2019
Salaries, incentives and benefits	\$ 46.9	\$ 44.1
Premises and equipment	25.4	20.6
Professional and consulting services	9.1	10.1
Communication and travel	0.6	1.1
Statutory audit fees	-	0.1
Board and committee remuneration	0.1	0.2
Other	1.2	1.2
	\$ 83.3	\$ 77.4

NOTE 12

Pension Administrative and Investment Management Expenses

(a) Pension administrative expenses

For the year ended December 31,	2020	2019
Salaries and benefits	\$ 60	\$ 58
System development and other purchased services	12	109
Premises and equipment	4	6
Professional services ⁽ⁱ⁾	12	10
Travel and communication	6	7
Total Pension Administrative Expenses	\$ 94	\$ 190

(b) Investment management expenses

For the year ended December 31,	2020	2019
Salaries and benefits ⁽ⁱ⁾	\$ 134	\$ 427
System development and other purchased services	33	36
Premises and equipment	20	24
Professional services ⁽ⁱ⁾	40	39
Travel and communication	15	23
Investment management services	30	30
Other	4	2
Total Investment Management Expenses	\$ 276	\$ 581

(i) Total professional services expenses include independent actuarial costs of \$0.9 (December 31, 2019: \$0.8) and external audit costs of \$3.0 (December 31, 2019: \$2.8).

(ii) Net of management fees of \$36.7 (December 31, 2019: \$35.5) earned from portfolio investments.