

April 18, 2018

Sent via E-Mail & Regular Mail

Mr. Mike Major
President
COTAPSA
77 Elizabeth Street, 3rd Floor
Toronto, ON M5G 1P4

Dear Mr. Major:

On behalf of the OMERS SC Board of Directors, I am pleased to submit responses to the questions posed in your email to me dated March 8, 2018 – and raised in your subsequent letter to Mr. Brian Mills, CEO and Superintendent of the Financial Services Commission of Ontario (FSCO), dated March 15, 2018.

We were assured in previous annual reports that, despite taking nearly 4 years to complete, it was a well-thought-out policy developed jointly by the SC and its directors. Furthermore, the SC has opted to file plan valuations with the regulator every year since its inception in 2007. They have done this with advice and input from AC staff and the OMERS actuary. We were of the impression that realistic assumptions were the critical element to these valuations and the foundation to our OMERS benefits. Is not each funding valuation a review of the economic and demographic assumptions used, to ensure benefits continue to be realistic and appropriate? Why then, this duplicative visioning work by Eckler?

Under the Pension Benefits Act, OMERS is required to file a pension plan valuation on a triennial basis, but may elect to do so annually. Each valuation provides a snapshot of the Plan's funded status at a point in time, based on current data and a reasonable assumption set that considers, among other things, the projection of select trends (e.g., retirement patterns) based largely on past performance. At the risk of minimizing the considerable effort and sophistication required to conduct this regular valuation, it becomes a largely mechanical exercise for qualified professionals like those you mention above.

The "visioning" work being undertaken in consultation with Eckler is just that: forward looking. By definition, it is not duplicative. Using the current valuation and discount rate policy as a starting point, the Comprehensive Plan Review is leveraging Eckler's highly sophisticated and customized software applications (and corresponding expert analysis) to model, on a stochastic basis, the projected implications of a broad range of potential plan changes under a range of evolving economic and financial circumstances.

Our goal is not to validate the Plan's current funded status; it is to assess, among other things (a) what the Plan's financial position is likely to be over time based on a number of emerging realities and threats, and (b) how those impacts can be mitigated through appropriate countermeasures, including the potential adoption of thoughtful Plan design options (if any).

Provide us with a written copy of the actual rationale, objectives, scope, estimated costs and criteria of the SC’s plan review.

Under the terms of its formal mandate, the Sponsors Corporation (SC) has an obligation to regularly assess the financial health of the OMERS Plans and to propose changes as appropriate. As clearly articulated on the SC website (www.omerssc.com), the SC is “solely responsible for determining benefit levels and contribution rates for the Plans, and setting compensation levels and appointment protocols for both the SC and OMERS Administration Corporation Boards.” Consider the following extract:

With a focus on leading governance practices and disciplined decision-making, we are committed to supporting the financial health, relevance and long-term viability of the OMERS Plans. It is all about protecting the pension promise, with due consideration to the interests of the sponsors, stakeholders, employers and members – current and future.

The Comprehensive Plan Review is a manifestation of this essential mandate. Prompted largely by feedback received during the consultative process adopted for Modified Inflation Indexing (MI²) in early 2017, the Comprehensive Plan Review will help the SC:

- model the Plan’s long-term financial health in direct response to a number of realities that are largely beyond OMERS immediate control (e.g., plan maturity and increased life expectancy); and
- explore the full suite of possible risk mitigation and management strategies available to the Board.

The overriding objective of the Comprehensive Plan Review is to ensure that the Plan remains sustainable, meaningful and affordable for both employers and members for generations to come.

To reiterate, the bulk of the project involves using Eckler’s highly sophisticated and customized software applications (and corresponding expert analysis) to model, on a stochastic basis, the projected implications of a broad range of potential plan changes under a range of evolving economic and financial circumstances.

As previously communicated by the SC, three real-time modeling sessions will be undertaken by the SC Board, as outlined in the following schedule:

March	Real-time modeling session 1: Consider the impact of potential plan options based on management’s recommendations
April	Real-time modeling session 2: Consider the impact of “refined” options based on the Board’s initial input – and initiate the design of an updated Funding Management Strategy (FMS)
May	Real-time modeling session 3: Finalize the proposed Plan changes (if any) and supporting FMS for formal Board consideration

In keeping with the formal timelines established for the OMERS SC Plan Change Process, any proposed changes will be posted following the SC Board meeting in May for consultative purposes.

We are precluded from disclosing the financial terms of the appointment under the Consulting Services Agreement signed with our service provider. The aggregate cost of consulting services secured by the SC is identified in the formal financial statements published by the SC annually.

As the work appears to be duplicative of analysis and technical support already provided by AC staff, and as such not lawfully payable by the AC, we assume that the cost is born by the SC vis-à-vis a special levy on employers and members. When will employers and members receive notice of the special levy and how much will this cost each member and employer?

As outlined above, the Comprehensive Plan Review is not duplicative; it is entirely additive and was scoped in direct consultation with the OAC actuarial and leadership teams, including legal. The work requires a level of objectivity, resources (human and technological) and expertise that extends beyond the day-to-day mandate of our in-house teams.

This is not to suggest that our in-house actuaries are incapable of doing comparable work; however, given the intensity and sensitivity of the Comprehensive Plan Review – together with the tight timelines dictated by the SC's Annual Plan Change Process published on our website and previously communicated to COTAPSA – it was determined that the work would best be completed by an objective third-party that specializes in pension modeling, design and change for large jointly-trusted pension arrangements.

The SC is confident that this additive work is reimbursable as it is being undertaken for the good governance of the Plan as a whole. Accordingly, no levy is required or planned.

Explain why the SC board opted to select Eckler, your former employer, for this project and what evaluation process the SC Board followed to determine their suitability.

Eckler was selected to complete the work through a formal RFP process managed by OMERS in-house procurement team under the direction of Bill Siomos, Director of Procurement. The project scoping and selection of a preferred supplier was conducted by a cross-functional team of senior individuals from both the OAC and SC.

Given my past professional relationship with Eckler, I voluntarily declared my potential conflict and recused myself from the selection process. Notwithstanding Eckler's strong credentials and pertinent experience, they were selected, in part, because they were the low bidder for the work. Eckler's appointment was approved unanimously by the SC Board, with a full understanding of my former professional ties to the firm.

Concerning annual plan change process, such as indexation, please provide a general description of current plan provisions and each proposed change with rationale - who is impacted by each change, (e.g. members/new members/retirees/employers) and likely effective date.

It is premature to provide a listing or assessment of any proposed plan changes as a result of this Review. At this time, no changes have been formally proposed, beyond those deferred from the 2017 review: the potential introduction of Modified Inflation Indexing, mandatory coverage for non-full-time employees, and the option for paramedics to bargain NRA 60 benefits.

In keeping with the formal timelines established for the OMERS SC Plan Change Process, any proposed changes will be posted following the SC Board meeting in May. This process has been clearly articulated previously to key stakeholders – and is the same process that COTAPSA participated in directly last year through its participation in regular meetings and conversations.

In summary

I trust the responses provided above adequately address your queries. We will obviously have an opportunity to discuss things further during my participation at the COTAPSA Board meeting in May.

As we have discussed in the past, Mike, we appreciate COTAPSA's interest in OMERS. We have made enhanced efforts to keep COTAPSA and other key stakeholders informed of key developments.

Our sincere hope is that we can build collaborative, productive and respectful relationships with all Plan stakeholders. Our singular and, hopefully, shared goal is to ensure that OMERS remains sustainable, meaningful and affordable for generations to come.

Yours truly,



Paul Harrietha, PhD
Chief Executive Officer
OMERS Sponsors Corporation

cc. Marianne Love, SC Co-Chair
Frank Ramagnano, SC Co-Chair
George Cooke, OAC Independent Chair
Brian Mills, FSCO CEO and Superintendent