



February 19, 2007

Mr. David Kingston, Chair
and Directors
OMERS Administration Corporation
One University Avenue, Suite 700
Toronto ON M5J 2P1

Dear Chair and Board Members:

I am writing on behalf of the Association of Municipalities to inform you of a number of concerns related to the ongoing development of Supplemental Plans in conjunction with the Administration Corporation's statutory obligations under the *Ontario Municipal Employees Retirement Systems Act, 2006*.

Staff from OMERS recently briefed AMO staff and others on a number of policy matters currently being considered by the Administration Corporation as work on the supplemental plans proceeds.

The issues presented raised a number of questions and concerns that will need to be addressed.

AMO has a number of general concerns, as well as specific concerns related to the four key questions highlighted in the presentation material and the "guiding principles" described in the presentation.

I will begin with the specific concerns about the matters expressed in the OMERS staff presentation.

"Guiding Principles"

AMO was surprised to see the set of Guiding Principles set out in the presentation as a number of these principles are inconsistent with the statutory responsibilities of the Administration Corporation. AMO was equally surprised that the principals had been adopted without prior consultation with the plan's sponsor, the Sponsors Corporation.

From AMO's perspective, the overriding principle that should be guiding the Administration Corporation's deliberations on supplemental plans should be that the Administration Corporation's authority is limited to establishing certain supplemental plans only to the extent necessary to meet clear requirements under the Act. That is, any matter relating to supplemental plans that is not addressed in the legislation, any area of discretion or interpretation, and any matter of ambiguity or that is not essential to the introduction of the



supplemental plans should be referred to the Sponsors Corporation unless there is clear consensus among all the affected parties.

Further, it was not apparent what analysis had been undertaken to determine the cost implication of the principles which had been adopted.

Most surprising, however, is that the Administration Corporation adopted a principle to guide the creation of future supplemental plans. Under the Act, the terms of future benefits and plans are solely the legal jurisdiction of the Sponsors Corporation. Therefore, the proposed principle should be immediately rescinded by the Administration Corporation.

That the presentation goes on to suggest possible courses of action that defy the guiding principles further undermines the value of the principles that have been established. Furthermore, the “principle” relating to solvency is an assumption (shared by AMO) rather than a principle.

These issues relating to “guiding principles” demonstrate that the Administration Corporation must establish a protocol for formal consultations with the Sponsors Corporation on matters where there is any question of appropriate roles and responsibilities or any potential financial impact on OMERS plans.

81.55% versus 70% Benefit Limit

AMO believes that there is a shared understanding among stakeholders that the case for the Federal Government to move to a 2.33% accrual rate for police service and fire service employees was to allow them to accrue the normal 70% ‘full pension’ with thirty years of service. Moreover, moving to the 81.55% scenario would create a further inequity for NRA 65 members. Consequently, AMO supports the option of establishing a 70% benefit limit and is opposed to the 81.55% option.

Past Service Payment Methodology

Regarding past service payment methodology, AMO assumes that, given the fiduciary responsibility of the Administration Corporation to all plan members, the Administration Corporation will make its decision based on a sound financial analysis that demonstrates the approach will minimize the costs of the Supplemental Plans.

Past Service Cost Sharing

AMO was surprised that the Administration Corporation was considering this matter. Clearly, it was the Government of Ontario’s expectation that payment for past service would be the sole responsibility of the employee. This position is consistent with requirements of the current OMERS plan (and one of the Administration Corporation’s “guiding principles”). It is AMO’s position that it would be irresponsible for the Administration Corporation to entertain any option that considers a role for employers in funding past service costs.



Past Service

The presentation raised another serious concern regarding past service. The presentation made a remarkable assertion regarding the provision on election to purchase past service within 24 months of date employer signs Agreement. It asserted that, for new members joining a class, the 24 months is from the enrolment date. This assertion is not supported by the Act and should be abandoned.

Inflation Protection

On the issue of inflation indexing, AMO shares the concerns expressed by the OMERS actuary and believes that alternative options should be presented to the Administration Corporation and the Sponsors Corporation for consideration. In addition, such alternative options should demonstrate opportunities significant cost savings.

A detailed financial analysis must be provided to the Administration Corporation and the Sponsors Corporation before this matter can be considered further. There is no urgency to take any action at this time on this matter and to err may prove costly to both employee and employer members.

General Concerns

AMO also has a number of general concerns about the ongoing development of supplemental plans.

It is difficult to understand how and why the four key issues that we raised in the presentation were isolated among what must be a multitude of key decision points including many that should probably be referred to the Sponsors Corporation.

The comments in this letter suggest that establishing a protocol for consultation between the Administration Corporation and the Sponsors Corporation is an urgent need. The Administration Corporation should also ensure that there is a protocol that includes timely consultation with key stakeholders, including AMO.

In addition, considerably more information about financial analysis is needed to inform these discussions. We expect that detailed costs analysis for the supplemental plans being developed is forthcoming. Further, is it critically important that a draft of the supplemental plan documents is shared to inform further consideration and discussion on these important matters.



We look forward a prompt response and look forward to working with you as this important work proceeds.

Yours truly



Pat Vanini
Executive Director

