July 4, 2012

Mr. Bill Morneau
Special Advisor - BPS Pension Efficiencies
via: pension.feedback@ontario.ca

Re: Consultations to Enhance Pension Fund Investment Efficiencies

Dear Mr. Morneau,

This submission is made by the Municipal Employers Pension Centre of Ontario ("MEPCO") in response to the request for comments by the Pension Investment Advisor (the "Advisor") appointed to lead the implementation of a pooling of public section pension fund assets in Ontario.

MEPCO is a wholly owned subsidiary of the Association of Municipalities of Ontario ("AMO") which has the responsibility for research, advice and liaison on matters related to the Ontario Municipal Employees Retirement System ("OMERS"). We welcome the opportunity to participate in this consultation process.

The comments provided herein respond specifically to the questions raised by the Advisor regarding the pooling of public section pension fund assets in Ontario on the assumption that the current bipartite governance structure of OMERS will not be changed in conjunction with the pooling initiative.

I. OMERS as "Consolidator"

The 2012 Budget stated that "the government intends to introduce a legislative framework in the fall of 2012 that would facilitate the pooling of pension fund assets. This could be achieved either through a new investment management entity *or by building on existing large public-sector pension plans.*" [*emphasis added*]

We expect that OMERS is one of the "existing large public-sector pension plans" that is being considered for use in the pooling of pension fund assets (a "Consolidator"). MEPCO and the constituents it represents have a direct interest in any pooling initiative under which OMERS is a Consolidator.

General Comments

MEPCO is aware of the literature and commentary around the "bigger is better" concept in terms of investment performance achieved by pension funds. This view, must however be balanced with other key pension plan objectives, including, strong plan governance, direct stakeholder input and risk and liability management.

OMERS currently provides pension benefits to local government employees across Ontario, including: municipal workers, Children's Aid Society workers, firefighters, Emergency Services workers, police, school board staff (non-teaching), as well as certain transit workers and hydro workers. Employee and employer representatives of these groups are jointly responsible for the governance of OMERS.

Currently, OMERS has a two party governance model. The Sponsors Corporation (SC) is *inter alia* responsible for plan design, contribution rate changes and other funding matters. The OMERS Administration Corporation (OAC) is *inter alia* responsible for pension administration, investment of plan assets and preparation of the plan valuation. The Boards of Directors of both the SC and the OAC have equal numbers of member and employer representatives. Specific employer and employee associations (e.g., municipalities, police, school boards, etc.) are responsible for appointing members to the Boards of Directors of the SC and the OAC. This appointment process ensures that the sponsors are responsible for the maintenance and supervision of OMERS.

The voluntary pooling of Ontario public section pension fund assets is currently available through OMERS. More specifically, in accordance with amendments to the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act"), OMERS Investment Management Inc. was established by the OAC in 2009 to provide third party investment services. ***MEPCO supports this existing voluntary pooling of public sector pension fund assets under the existing OMERS framework.***

To the extent that OMERS becomes a Consolidator for the pooling of pension assets under the existing OMERS Act and governance structure, its core employer and employee stakeholders should not be changed vis-à-vis other employer and employee groups without the agreement of the current sponsors. In other words, changes to the governance structure should in no way dilute the representation of the existing employer and employee groups vis-à-vis other employer and employee groups within the governance structure without the agreement of the current sponsors. The existing sponsors should have authority to make decisions around the scope of expansion and pooling.

Response to Questions

Below we provide responses to the specific questions raised as they apply to OMERS as a Consolidator for the pooling of pension fund assets.

1. *What is the appropriate mechanism(s) for pooling the investments of BPS pension plans?*

   MEPCO supports the current voluntary asset pooling mechanism now available under OMERS.

2. *Should participation in the model be voluntary or mandatory?*

   For the time being, the pooling of assets through OMERS Investment Management Inc. should be voluntary. This provides administrators of BPS pension plans, as fiduciaries, with the flexibility to choose the investment managers of the assets for which they have responsibility.

While the pooling of assets and liabilities of BPS pension funds may have important advantages, including better investment returns with lower risk, the implications of mandatory pooling of Ontario BPS pension plans warrants a full longer-term investigation, including the impact on a plan administrator's fiduciary responsibility under a mandatory scheme.

3. *What is the appropriate governance model to ensure effective leadership and representative decision-making?*

   For OMERS, the appropriate model is one which preserves the right of the sponsors to control the plan assets and liabilities.

4. *How can the model meet plan-specific investment needs in a manner that is consistent with the fiduciary responsibilities of plan administrators?*

   The current voluntary pooling framework under OMERS allows administrators of non-OMERS plans to select the investments appropriate for their plans and thereby ensure that their fiduciary duties are being met.

5. *How can the model be implemented? What is the appropriate transition period for implementation? How should transition costs be allocated?*

   The OMERS Investment Management Inc. model is already in place.

   If all Ontario BPS pension plans will be required (or offered an incentive) to pool their assets through an available pooling vehicle (e.g., OMERS, Ontario Teachers Pension Plan or an independent investment entity), implementation issues will arise for OMERS and the other pooling vehicles. A significant amount of planning will be required. It is likely that a transition of 3 – 5 years' minimum is required.

   OMERS should not bear any implementation costs.

6. *What role should pension plan design, asset allocation models and the size of plan play in determining participation*?

   A voluntary model which provides a range of asset classes and strategies will allow for participation by all types of plans.

7. *Are there any obstacles to the inclusion of defined contribution pension plans in the model?*

   The inclusion of DC plans could raise additional complexities, given that OMERS is a DB plan, but this is not necessarily an obstacle.

8. *Should the model include other BPS Investment Funds?*

   This is permitted under the current OMERS framework.

We request the opportunity to make further submissions to you and to meet with you in person as the review process progresses to the extent that you are considering OMERS as a Consolidator beyond what is contemplated under the current OMERS Act and governance structure.

<u>II. OMERS as "Consolidatee"</u>

The 2012 Budget did not suggest that OMERS would be part of any pension asset pooling initiative other than as a Consolidator. However, if during the consultation process, thinking evolves such that a pooling of OMERS assets in a new investment management entity or with other large public-sector pension plans is being considered (OMERS being a "Consolidatee"), MEPCO and the constituents it represents have a direct interest in any such initiative. In such case, we request the opportunity to make further submissions to you and to meet with you in person.

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We thank you for the opportunity to comment on these issues and hope that our comments are considered and acted upon. Please kindly contact the undersigned at (416) 971-9856, ext. 316, with any questions or comments.

Respectfully,

Pat Vanini
President, MEPCO
Executive Director, AMO