

OMERS Presentation

CUPE ONTARIO CONVENTION 2015

SHERATON CENTRE, TORONTO

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OMERS at a glance

Defined Benefit Pension plan for Ontario Municipalities, School Board support Staff, Police Services Boards, Fire Fighters, Libraries, Municipal Electrical Utilities & Children's Aid Societies

Serves over 450,000 members & retirees from 974 employers across Ontario

Almost 60% of membership are women

85% of part-time members are women

73% of members are full-time, but number of part-timers growing

OMERS at a glance (Cont.)

CUPE members constitute 44.5% of the active members of the Plan – 119,000 active members

As OMERS is a jointly-sponsored pension plan, representatives of active and retired members have only 50% of the Plan voting rights

OMERS is one of the largest pension plans in Canada

One in every 20 people employed in Ontario is an OMERS member

OMERS at a glance (cont.)

\$72 billion in assets (market value as at Dec. 31, 2014)

Invested in stocks, bonds, commodities, private equity, real estate, infrastructure and venture capital projects

Some of the investments in Canada and around the world:

- Bruce Power, Life Labs, Royal Bank Plaza, Yorkdale Mall
- Allied British Ports, Airports in Costa Rica, Golfsmith, Vue Entertainment

OMERS at a glance (cont.)

OMERS supports Ontario communities by:

- Paying the retirement wages and putting food on the table for a large number of retirees
- Investing in companies and projects that employ workers in the Province and around the world
- Investment returns constitute 75% of the funds required to pay pensions
- The remaining 25% comes from employer and member contributions

OMERS governance structure

OMERS has a dual governance structure (OMERS Act 2006)

It has a Sponsors Corporation (SC) and an Administration Corporation (AC)

The SC is the Plan Sponsor and is responsible for:

- Plan design, including contribution rate & benefit adjustments
- Rules governing appointments to both OMERS Boards

CUPE's representatives on the SC are Brian O'Keefe & Tim Maguire, President of Local 79

OMERS governance structure cont.

The AC Board Members (Trustees) have a fiduciary duty to represent the best interests of the Plan members and are responsible for the:

- Day-to-day administration of the pension plan
- Management of investments

CUPE's Trustees on the AC Board are John Weatherup, President of Local 4400 and Darcie Beggs, former CUPE pension staff member at National Office

Both Corporations have developed a Framework Agreement & a protocol to integrate the activities of both Corporations

OMERS governance structure (Cont.)

Composition of SC Board

Employee Reps.

Brian O’Keefe (CUPE)

Tim Maguire (CUPE)

Bruce Miller (PAO)

Sandra Sahli (OSSTF)

F. Ramagnano (Fire)

Diana Clarke (OPSEU)

Paul Bailey (Retirees)

Employer Reps.

Marianne Love (AMO)

Fred Biro (OASPB)

Barry Brown (AMO)

John Fleming (Toronto)

W. McNally (Sch. Bds.)

M. McConville (OACAS)

C. Macaluso (EDA)

Composition of AC Board

George Cooke – Independent Board Chair

Employee Reps.

J. Weatherup (CUPE)

Darcie Beggs (CUPE)

Bill Aziz (Fire)

L. Hutchinson (OPSEU)

E. Swimmer (PAO)

S. Vandenberg (OSSTF)

D. Tsubouchi (retirees)

Employer Reps.

Michael Fenn (AMO)

P. Somerville (AMO)

Monty Baker (OASPB)

C. Inskip (Sch. Bds.)

D. Beatty (Toronto)

Bill Butt (EDA)

Jim Phillips (OACAS)

OMERS governance structure (cont.)

Some of what the AC Trustees do are as follows:

- Set administration policies for the Plan
- Hire and monitor agents (service providers) for the implementation of policies
- **Oversee the development and implementation of:**
 - Statement of Investment Policies and Procedures (SIP&P)
 - Investment Beliefs
 - Trustee education
 - Hiring of the CEO
 - Compensation for senior staff

OMERS governance structure (cont.)

Some other duties of the AC Trustees:

- Ensure that pensions are paid correctly and on-time
- Ensure the Actuarial Valuation and financial statements are completed

Financial status of the Plan for 2014

OMERS had a 10% net rate of return on investments for 2014

This is well ahead of the long-term funding benchmark of 6.5%

Deficit for 2014 has declined from \$8.6 billion last year to \$7.1 billion

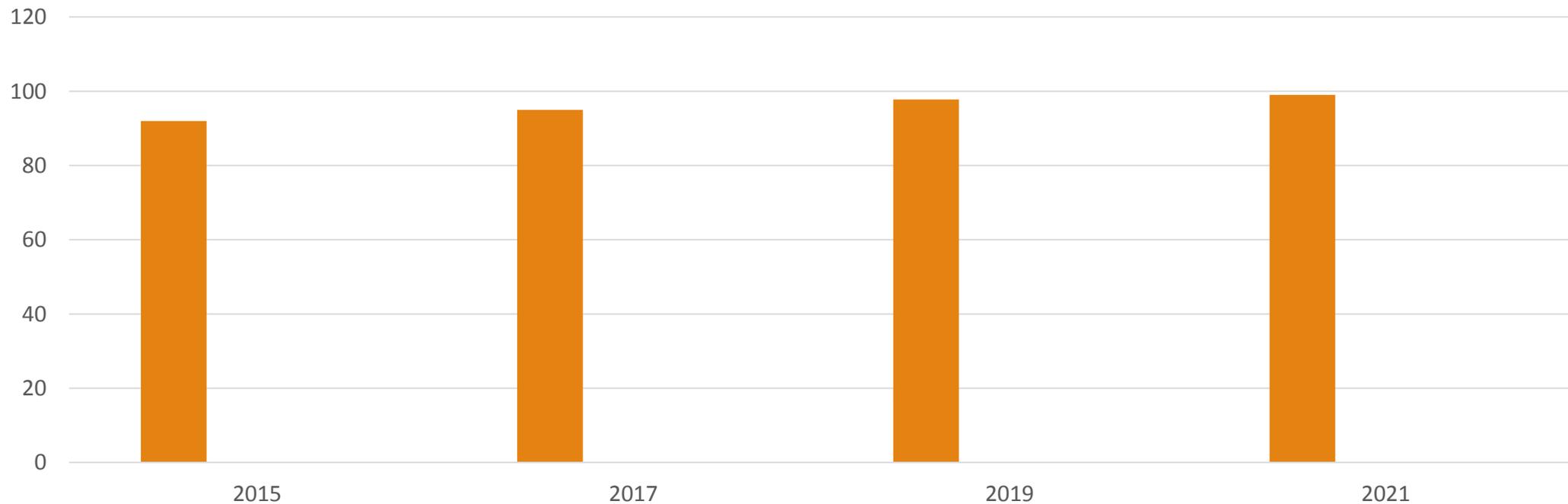
Plan funded ratio has improved from 88.2% last year to 90.8% in 2014

Because of smoothing, \$1.8 billion in deferred gains for implementation in future years

7% average return on investments over 10 years

Plan on track to be fully funded by 2025, or earlier

Baseline projection of funded status of Plan
(based on a 6.5% rate of return)



Funded status of Plan

Although Plan on track to be fully funded by 2025 or earlier, it remains vulnerable while in deficit

The SC made a decision in 2010 to increase contributions over a three year period, with a minor adjustment in benefits in the third year to address the deficit

The SC believes that this decision is sufficient to address the existing deficit

A baseline ten year projection, indicates that current contribution rates are sufficient to meet the minimum requirement throughout this period

Strategy to address deficit

OMERS fully expected the deficit to peak in 2012 and then gradually decline

What we are dealing with here is mainly the impact of the 2008 downturn in the global economy

The SC developed a new Funding Management Strategy (FMS) in 2014:

- Three different management zones – Deficit (below 100% funding), Reserve (100% - 110 funding), Surplus (above 110% funding)
- Triggers and targets for action in each zone based on actual circumstances
- Strategy drives decisions rather than dueling proposals in the SC's annual decision-making cycle

Strategy to address deficit (cont.)

In the immediate future, much depends on investment returns meeting expectations. In this regard the AC Trustees:

- are continuing the strategy of gradually shifting the asset mix to reduce the level of public market assets to the private market. However, the majority would remain in public traded markets
- are continuing to enhance the move to the in-house active management of assets
- are completing the transition to a more diversified risk-balance portfolio in Public Markets
- The AC believes these strategic actions should result in annual investment returns in excess of 7% over the long-run

SC decisions for 2015

Based on the direction of the FMS, the SC decided against any contribution rate or benefit adjustments this year

The SC did decide to file the 2014 Plan Valuation this year

- This secures contribution rates through to the end of 2018

The SC also decided not to table any other Plan change proposals this year. These are proposals other than funding management proposals and are primarily of a non-cost nature

In future, other Plan change proposals will have to be submitted to the SC Office by October 1 in the year prior to the year when the SC will consider the proposal

Strategic Planning

Both OMERS Corporations have made a commitment to work towards completion of an enterprise-wide strategic plan by the end of this year

Both Boards and staff have spent considerable time on this issue over the past year with a view to integrating the OMERS organization

A joint-strategic planning session has been scheduled for September to bring this project to a head

Funding of SC

The SC received \$2.5 million in start-up money from the Province in 2007 following the proclamation of the OMERS Act

The agreement was unclear whether or not any remaining money had to be paid back on the expiry of the agreement on March 31, 2014

The Minister of Municipal Affairs and Housing requested that the grant plus interest payments and less some start-up costs be repaid. This money has now been repaid in full, leaving the SC without independent resources

Funding of SC (cont.)

Not an insurmountable problem as over 95% of SC expenses reimbursed by AC and there is a provision in OMERS Act to allow SC to levy for SC specific expenses not permissible for reimbursement by AC

SC currently working on a solution to deal with this issue

The only obvious non-reimbursable SC expenses are those related to collection of the levy and those related to dispute resolution

Conclusion

Thanks for your attention to this presentation

We are pleased to answer your questions following the next presentation