The Voice of Ontario's Electricity Distributors

September 17, 2018

Mr. Paul Harrietha
Chief Executive Officer
OMERS Sponsors Corporation
900 – 100 Adelaide St. West
Toronto, Ontario M5H 0E2

RE: ELECTRICITY DISTRIBUTORS ASSOCIATION SUBMISSION TO THE OMERS SPONSORS CORPORATION COMPREHENSIVE PLAN REVIEW

Dear Mr. Harrietha:

The Electricity Distributors Association (EDA) appreciates the opportunity to provide this submission to the OMERS Sponsors Corporation (SC) Comprehensive Plan Review.

INTRODUCTION

As you know, the EDA is the voice of Ontario's local electricity distribution sector, which consists of municipally and privately-owned local distribution companies (LDCs). The distribution sector contributes hundreds of millions of dollars annually to municipal and provincial revenues. The majority of Ontario LDCs are in the OMERS plan. The EDA's comments were developed through our Human Resources (HR) Council and Finance & Corporate Issues Council and approved by the EDA Board.

GENERAL COMMENTS

THE OMERS ENVIRONMENT

As noted to the OMERS SC in our May 2018 comments, the EDA is pleased with the released 2017 financials of OMERS. However, despite recent stronger investment returns, the Plan remains underfunded and vulnerable to longer-term pressures. The Plan has not fully recovered from the 2008 financial crisis and is not yet fully funded. Ten years after the fact, there remains a funding shortfall of $5.4-billion and a concern in the LDC sector that this shortfall may be understated due to the current discount rate.

The EDA agrees the following challenges are demanding enough to warrant the OMERS SC in taking an active role in meaningful consultation on its plan design proposals to ensure the Plan avoids any punitive regulatory or legislative measures in the future.

Electricity Distributors Association
3700 Steeles Ave. W., Suite 1100, Vaughan, Ontario L4L 8K8 Tel/Fax 647.EDA.5300 1.877.262.8593 email@eda-on.ca www.eda-on.ca

- With fewer contributing members to make up for potential investment losses, the plan will become more vulnerable to economic downturns;
- When people collect pensions for longer periods, the result is increased plan liabilities and, by extension, higher plan costs;
- Any decline in membership intensifies maturity challenges – and makes the plan more susceptible to economic shocks;
- OMERS is highly dependent on future investment income; and
- Canada Pension Plan (CPP) enhancement will increase costs and benefits for both members and employers.

It is important to note that the demographic and economic realities that OMERS is confronting are the same ones that other pension funds are also grappling with, with the exception that OMERS has been an underperformer in the past years since 2008 and this has exacerbated the current situation. The EDA believes that, in addition to the Comprehensive Plan Review, there needs to be a balance between plan changes and keeping pressure on the management of OMERS to improve portfolio returns.

The EDA encourages OMERS to remain focused on longer-term realities that may increase the cost of the current Plan in the future and impact the contributions of employers. The EDA continues to support the Comprehensive Plan Review as a matter of prudent management, good governance and an opportunity to rethink OMERS in response to realities that are largely beyond our immediate control. The goal of OMERS must be to ensure that the Plan remains sustainable, relevant and affordable for its future generations.

The EDA continues to support the Comprehensive Plan Review as a matter of prudent management, good governance and an opportunity to rethink OMERS in response to realities that are largely beyond its immediate control.

THE LDC ENVIRONMENT

The cost of the OMERS plan remains an issue to Ontario's LDC sector. Therefore, cost of the plan must remain a focus of the OMERS SC. An unaffordable and unsustainable OMERS plan will present a human resources and talent challenge for most LDCs that are in the midst of planning, attracting and investing in their future workforces. The LDC sector is evolving from traditional "poles and wires" businesses into more complex modern distribution and energy solutions providers. Many LDCs do not currently possess the appropriately skilled workforces to realize this future and are managing change that will include new business structures, services, and technologies.

In this environment, OMERS must recognize LDCs are under increased pressure to demonstrate the plan's benefits to new young hires and experienced hires from outside environments without defined benefit pension plans. Further, LDCs must continue to demonstrate to their

Boards and their regulator, the Ontario Energy Board, that the end user impacts of OMERS costs to electricity customers are sustainable economically and politically.

The consensus in the LDC sector is that increased contributions by employers and employees are not supported at this time.

As noted in the EDA's previous comments, the consensus in the LDC sector is that increased contributions by employers and their employees are not supported at this time. However, the EDA encourages OMERS to consider the sustainability of the Plan as a retention and attraction tool for employers as it considers its proposals, particularly those that change the plan's future benefit.

COMMENTS ON PROPOSED PLAN OPTIONS

The EDA thoroughly reviewed the proposed plan options from the employer perspective of Ontario's LDC sector.

REPLACE GUARANTEED INDEXING WITH CONDITIONAL INDEXING FOR FUTURE PENSIONS

To meaningfully address long-term sustainability issues for the OMERS plan, the EDA encourages the OMERS SC to adopt the proposed "conditional indexing." Conditional indexing will provide for annual pension increases when the Plan is financially healthy. If the Plan gets into financial trouble, it will be a valuable tool so that indexing can be reduced (or suspended) on a temporary basis. The use of conditional indexing is prevalent among other major public pension plans.

The EDA encourages the OMERS SC to adopt the proposed "conditional indexing."

The EDA notes that the OMERS proposal states that the change would have no impact on current retirees or service up to the effective date of the change (e.g., January 1, 2021) and appreciates that in no case will pensions and pay be reduced from one year to the next. However, to provide LDCs the adequate time to discuss the changes to the plan with employees and labour, the EDA recommends that the OMERS SC extend the date of implementation of the change to the year 2025.

Further, the EDA recommends against any future annual adjustments of 0% of Consumer Price Index (CPI) and therefore encourages the OMERS SC to institute a minimum threshold of 0.25% of CPI for this proposed change. Similarly, OMERS should institute a threshold where a funded status of more than 110% would allow for the opportunity to help restore benefits to where they would have been had indexing not been suspended in the past.

INTEGRATING THE PENSION FORMULA WITH THE NEW "YEAR'S ADDITIONAL MAXIMUM PENSIONABLE EARNINGS"

As the OMERS plan is integrated with the Canada Pension Plan (CPP), and the CPP will be steadily increasing contribution rates and benefits impacting employers starting next year, this proposed new formula should be considered by the OMERS SC. The proposal could better integrate OMERS with the new CPP and may keep overall contribution levels from increasing too dramatically. The likelihood that plan members can expect to earn more with the combined pension (OMERS plus CPP) under the updated formula merits its consideration.

MODIFY THE EARLY RETIREMENT SUBSIDIES

The EDA believes that the usage of "subsidy" when referring to the early retirement benefit is misleading as it suggests an inequity between members of the plan: early retirees and contributors. The notion of "subsidy" principally arises as a result of the current status of the plan i.e., deficit. The principal issue is whether the structure of the early retirement provisions are balanced with regard to member interests irrespective of the status of the plan. As such, the term "subsidy" should be avoided and "Early Retirement Structure" should be used in lieu thereof.

The EDA notes the data provided by the OMERS SC confirms that the average plan member now joins at age 37 and earns 11 years of service. However, that, in and of itself, is insufficient evidence to warrant a change in the Early Retirement Structure and, as a matter of fairness, neglects the broader plan demographic including the large demographic that joined our sector at a much earlier age and is more likely, or has more potential, to take advantage of the current rules.

The EDA does not agree with the changes to the Early Retirement Structure as proposed by the Comprehensive Plan Review.

Changing demographics may merit ongoing consideration for modifying the Early Retirement Structure in the future, but much broader analysis is required beyond the most recent average age of new plan members. Consequently, the EDA does not agree with the changes to the Early Retirement Structure as proposed by the Comprehensive Plan Review.

The EDA submits that the current proposal be deferred subject to completion of broader analysis as suggested above. Such analysis should include thoughtful consideration of a combination of exemption and grandfathering for longer-tenured members that are in reasonable proximity of an early retirement decision under the current structure and, in the context of the current deficit state of the plan, have "paid" for the benefit of the current rules. For example, exemption/ full grandfathering might be considered for members within five years of age/ eligible service of the early retirement threshold under the current structure.

ELIMINATE THE CURRENT 35-YEAR CAP FOR CREDITED SERVICE

The EDA is against this proposed change and recommends maintaining the maximum amount of credited service capped at 35 years. The proposed change may significantly increase the employers' expense as well as impact the LDC succession planning by pushing long service employees to retire.

PLAN ELIGIBILITY FOR NON-FULL-TIME MEMBERS

The EDA is against this proposed change and recommends maintaining optional plan membership for non-full-time members who work 700 hours or earn 35 per cent of Year's Additional Maximum Pensionable Earnings (YMPE) (two consecutive calendar years) unless the employer elects mandatory membership. This proposed change adds costs to LDCs and by extension end-user electricity customers.

CONCLUSION

The EDA thanks the OMERS SC for the opportunity to provide this submission to the Comprehensive Plan Review. The EDA supports the SC effort to consult plan sponsors and members on the real challenges that will impact the sustainability of the plan for future generations. The EDA will continue to facilitate these discussions within the LDC sector as our members have a vested interest in maintaining the health and affordability of the plan as employers. OMERS has contributed to the post-retirement benefit of generations of utility workers in Ontario, and the EDA will continue to provide input to OMERS as it proposes and reviews any future measures or tools to improve plan sustainability.

Please direct any questions or comments about this submission to the EDA's Derek Nardone, Manager, Corporate & Government Affairs at dnardone@eda-on.ca or (905) 265- 5348.

Sincerely,

Teresa Sarkesian

Teresa Sarkesian
President and Chief Executive Officer

c.c. C.C. (Charlie) Macaluso, OMERS SC Board Director