

REGIONAL MUNICIPALITY OF OTTAWA-CARLETON
MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

REPORT
RAPPORT

Our File/N/Réf.
Your File/V/Réf.

DATE 26 June 1997

TO/DEST. Co-ordinator
Corporate Services and Economic Development Committee

FROM/EXP. Finance Commissioner
Human Resources Commissioner

SUBJECT/OBJET **OMERS SURPLUS - MANAGEMENT PLANS**

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee recommend Council:

- 1. Communicate their support for the changes to the OMERS pension plan being proposed by the OMERS Board to the Minister of Municipal Affairs;**
- 2. Approve as a budget direction for the 1998 Budget that \$1.8 million of the Employer's temporary unused pension contribution be contributed in the Vested Benefits Reserve Fund (VBRF), to provide for current unfunded liabilities and the remaining \$1.0 million be provided to fund one-time technological and other staff development, resulting from the RMOC's Corporate Renewal;**
- 3. Recommend the Police Services Board to contribute its temporary unused pension contributions to a Vested Benefit Reserve Fund (VBRF).**

BACKGROUND

Since early 1996 the OMERS Board has been consulting with stakeholders regarding various options available to deal with the excess surplus which has accrued in the pension fund. Specifically the Income Tax Act (ITA) allows a maximum surplus of 10% of the value of the actuarial liability. The OMERS surplus has experienced unexpected growth since actual experience is quite different from the assumptions on which the funding was based. Specifically OMERS attributes this growth to low inflation, low wage growth and continued excellent investment returns.

In late April, the OMERS Board decided upon a series of measures designed to distribute the surplus as equally as possible to plan members both current and retired. These measures, some temporary and some permanent, are intended to recognize that caution is prudent, circumstances can change quickly and control can be lost easily. The OMERS Board was also cognizant of the plan management objectives of secure benefits, competitive benefits, stable contribution rates, reasonable cost, full indexation, prudent management and flexibility.

In accordance with the above, the following changes were approved by the Board. These changes have been submitted to the Province for approval and enactment into legislation:

- a) 100% Inflation Catch-Up: This will reach the lowest benefit and earliest retirees under the plan and is consistent with current indexing policy and includes current pensioners in the use of the surplus.
- b) 66 2/3 Spousal Pension: This will increase the pension payable to surviving spouses from 60% of the retiree's pension and broadens pensioner sharing in the surplus.
- c) 2% Contribution Reduction: Commencing in 1998 and continuing for the next five years (subject to annual review) the contribution rate for both the Employer and employees will be reduced by 2%. This will result in annual savings of approximately \$2.8 million for the RMOC, \$1.0 million for the Regional Police, and an average of \$898 annually for each employee.
- d) 90 Factor Reduction: Commencing in 1998 and continuing for the next five years the age and service factors will be reduced from 90 to 85 for NRA 65 Employers and from 85 to 80 for NRA 60 Employers.
- e) Reduction Factor Changes: Commencing in 1998 and continuing for the next five years the reduction factor for employees taking early reduced pensions will be reduced from 5% per year to 2.5% per year.

Benefit Impact Cost

The Corporation has a current unfunded liability of approximately \$48 million in future termination payments to employees for unused sick leave credits and other entitlements. The Regional Police Service accounts for approximately \$30 million of this total. These benefits are normally paid out of a combination of the Vested Benefit Reserve Fund (VBRF) and current operating budgets. The current balance of the VBRF is \$4,084,000. Over the next five years 410 employees (not including Regional Police Service), will be eligible for normal retirement. As a

result of the changes described in points d) and e) above an additional 399 will become eligible for early retirement and therefore have access to their termination benefits. Based on this, the number of employees eligible for access to the funds in the VBRF over the next five years could double.

The coming changes to the structure of local municipal government will undoubtedly result in some costs related to workforce restructuring. To the extent that workforce restructuring occurs, additional pressure will be placed on the VBRF to provide for the payment of vested benefits.

Workforce Renewal

As the Corporation has been undergoing its review and renewal, the composition and demands placed upon our workforce have changed significantly. For example, one area significantly impacted is that of technology related occupations. The rapid movement to computerization has left us competing with other employers in the region for scarce skilled computer programmers and systems analysts. The demand for these highly skilled employees will only increase over the next few years as companies such as Nortel seek to dramatically expand their local workforces and the Year 2000 problem increases in prominence. Management must have the flexibility and the means to adapt its workforce to meet the essential operational needs of the Corporation through new recruitment and development programs.

CONCLUSION

The proposed changes to the OMERS Pension Plan are welcome. They provide a small increase in net pay to our employees who have not experienced a salary increase since 1992. They offer the opportunity to the RMOC, as an employer, to deal with the challenges of corporate restructuring and the costs associated with them. However, it must be recognized that this reduction in contributions is not a permanent change, so in order for the Region to continue to be fiscally prudent, these funds should not be used for permanent adjustments to the base budget. A similar situation exists for the Regional Police and should, as recommended, be communicated to the Regional Police Services Board.

Approved by
Joyce M. Potter
Human Resources Commissioner

Approved by
J.C. LeBelle
Finance Commissioner