SUBJECT: OMERS Bill 206 - Update (FCS05118) (City Wide)

RECOMMENDATION:

a) That the Resolution, per Appendix A to report FCS05118, respecting Bill 206 An Act to revise the Ontario Municipal Employees Retirement System Act, be approved; and

b) That the Resolution be forwarded to the Minister of Municipal Affairs and the local Members of Provincial Parliament.

EXECUTIVE SUMMARY:

Bill 206 will eliminate the Province’s sponsorship of OMERS and establish a Sponsors Corporation consisting of employee and employer representatives. It also allows the Sponsors Corporation to introduce supplementary plans which could result in a large financial impact to municipalities whose only source of funding these added costs would be through tax increases and/or program cuts. In addition, employees would be affected twofold: through increased contributions and through increases in residential taxes.

The Province first introduced Bill 206 in June 2005 and employer groups are concerned that it is rushing to reform one of the largest pension plans without fully understanding the potential repercussions of its proposed changes. Costings based on templates provided by The Association of Municipalities of Ontario (AMO) reinforces these concerns and show that providing three of the most likely demanded supplementary
plans would increase the City’s pension costs by 49.9% and increase residential taxes by 2.3%.

AMO strongly recommends that municipalities pass the resolution per Appendix A to report FCS05118, expressing their concerns with the passing of this Bill.

**BACKGROUND:**

On June 1, 2005, the Province of Ontario introduced *Bill 206, Ontario Municipal Employees Retirement System Act, 2005*, that proposes to change the current OMERS governance, which was previously reported to Council on September 8, 2005, (*Item 5 of Corporate Administration Committee Report 05-013*). In addition, Bill 206 also provides for additional plans to be added, called supplementary plans, provided that they are approved by the Plan’s Sponsors Corporation and adopted by employers through collective bargaining.

The Province will be holding committee hearings in November 2005 and The Association of Municipalities of Ontario (AMO) is developing a response to the Bill but is also encouraging municipalities to pass the resolution (per Appendix A to FCS05118) advising the Province that Bill 206 is not supported in its current form. Further, AMO has requested that the resolution be forwarded to the Minister of Municipal Affairs and Housing and their local Member of Provincial Parliament.

The Bill was introduced in June 2005 with an implementation date of January 2006. There is concern that the Province is moving too quickly to implement this Bill and have not allowed stakeholders adequate opportunity to fully analyze the impact of the legislation and the repercussions it may have on administrative costs, collective bargaining and residential tax rates.

The following is a summary of concerns that have been noted thus far:

**Governance Model**

- Under Bill 206, the Sponsors Corporation will be appointed for a term of one year and the initial composition will consist of equal representation from employer and employee groups:
  - However there has been no consultation with employers regarding the appointments to the Sponsors Corporation;
  - The Sponsor Corporation may pass by-laws prescribing its own composition as well as that of the Administration Corporation and there is nothing in the legislation that requires that an ongoing balanced representation be maintained.
- The Administration Corporation has the responsibility of administering the pension plan, as well as, being the trustee of the pension funds, both of which, are paramount to ensuring the viability and integrity of the plan. However, there is nothing in place to ensure that appointees have the necessary skills and expertise to carry out these duties.
Decisions made by the Sponsors Corporation require only a simple majority. A larger majority agreement (i.e., at least 60%) would ensure that important decisions are not determined by the absence of a single member which could effectively give a single sector or sponsor group the power to introduce changes.

Supplementary Plans

The ability of the Sponsor’s Corporation to approve supplementary plans will impede contract negotiations as it promotes arbitration over negotiation and will have a large financial impact on municipalities:

- Supplemental plans will enhance pension benefits and promote early retirement consequently resulting in increased labour costs through increased contribution rates. The plans would be accessed through collective bargaining or, in the case of police and fire, through mandated arbitrated settlements. Since municipalities cannot accommodate union expectations without tax increases or cost cutting, it is likely that future negotiations would lead to arbitrated settlements. Historically, arbitrated settlements have more often favoured labour organizations.
- The Bill considers the interest of select stakeholders over others by explicitly promoting supplemental plans and enhanced benefits for police and firefighters (sections 4 and 10(2)). The legislation should maintain a balanced consideration for all stakeholders and not be required to consider the specific issues of any one stakeholder.
- The Fire and Police Associations are proposing to have Bill 206 amended to provide specific supplemental plans for its’ members. If the Province supports this, then these plans would be available when the legislation is passed forcing municipalities into mandated arbitrated settlements.

ANALYSIS/RATIONALE:

A major concern of AMO and municipalities is the financial impact of supplementary plans. Consequently, at a stakeholder meeting on September 23, 2005, OMERS presented 18 possible supplementary plans and the necessary formulas required to estimate the cost impact of providing these plans. Of the 18 supplementary plans, the Municipal Finance Officers’ Association of Ontario (MFOA) identified 3 as the most likely to be demanded. They are:

- a) NRA 60 – 2.33% benefit accrual for future service (up from the current 2%);
- b) NRA 60 – 25 years and out with no age restriction (was 30yrs, minimum age 50);
- c) NRA 65 – 30 years and out with no age restriction (was 30yrs, minimum age 55)

Based on a template provided by the MFOA, the following is the cost to the City to provide the above supplementary plans:
<table>
<thead>
<tr>
<th></th>
<th>NRA 60</th>
<th>NRA 65</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Base Plan Cost</td>
<td>$8.3M</td>
<td>$14.6M</td>
<td>$22.9M</td>
</tr>
<tr>
<td>Additional Cost of Supplementary Plan</td>
<td>8.4M</td>
<td>3.0M</td>
<td>$11.4M</td>
</tr>
<tr>
<td><strong>Total Estimated Plan Cost</strong></td>
<td>$16.7M</td>
<td>$17.6M</td>
<td>$34.3M</td>
</tr>
<tr>
<td>% Increase</td>
<td>101.5%</td>
<td>20.7%</td>
<td>49.9%</td>
</tr>
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Although these costings are based on formulas derived from the demographic profile of the overall OMERS membership, it closely resembles the profile of the average City employee and, therefore, the costings are a reasonable approximation of the expected costs.

The estimated $11.4M increase in pension contribution required to provide the three supplementary plans would result in a 2.3% increase in the residential tax rate or a $54.88 increase in tax per residence.

The above costing information was forwarded to the MFOA on October 21, 2005.

Staff will be calculating the cost impact of the additional 15 possible supplementary plans and, should the cost prove significant, a further update will be provided to Council.

**ALTERNATIVES FOR CONSIDERATION:**

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

The Bill is still in the consultation stage and therefore there are no financial/staffing or legal implications at the present time. Staff will continue to monitor the developments of this Bill as it moves through the legislative process.

**POLICIES AFFECTING PROPOSAL:**

None

**RELEVANT CONSULTATION:**

None

**CITY STRATEGIC COMMITMENT:**

By evaluating the “Triple Bottom Line”, (community, environment and economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community and Provincial interests.
Evaluate the implications of your recommendations by indicating and completing the sections below. Consider both short and long-term implications.

Community Well-Being is enhanced.  ☐ Yes  ☑ No

Environmental Well-Being is enhanced.  ☐ Yes  ☑ No

Economic Well-Being is enhanced.  ☑ Yes  ☐ No

The availability of a stable and well-managed pension program contributes to the financial well being of the City.

Does the option you are recommending create value across all three bottom lines?  ☑ Yes  ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?  ☑ Yes  ☐ No

The availability of a stable and well-managed pension program contributes to the health and well being of employees and pensioners as well as attracting and retaining high performance public servants.
Municipal Assistance Needed: Attached is a model resolution that every municipality, which is an OMERS employer, is asked to pass quickly and forward to Minister Gerretsen and their local MPP(s).

Model Resolution Re: Bill 206:

WHEREAS the provincial Standing Committee on General Government is currently debating Bill 206, An Act to revise the Ontario Municipal Employees Retirement System Act; and

WHEREAS the OMERS pension fund is currently equal to approximately 8% of Ontario’s annual GDP; and

WHEREAS the OMERS pension fund serves approximately 900 employers and 355,000 diverse employee groups including: current and former employees of municipal governments; school boards; libraries; police and fire departments; children’s aid societies; and, electricity distribution companies; and

WHEREAS Ontario’s municipalities and their employees depend on the prudent management of the $36 Billion plan and to ensure that employees and employers are paying for benefits they can afford; and

WHEREAS OMERS employer and employee members are facing an increase in OMERS contributions in 2006 of approximately 9% as a result of a significant deficit in the OMERS fund; and

WHEREAS the Bill includes significant, potentially costly and unnecessary changes to the governance structure of OMERS including a Sponsors Corporation structured to be governed by arbitration; and

WHEREAS the Bill would permit the creation of expensive supplementary plans to provide optional enhanced benefits that will impose new collective bargaining obligations on municipalities, the operating costs of which cannot yet be fully assessed; and

WHEREAS the Province has a responsibility to study the potential impact of the changes it is proposing and to share the results with employers and employee groups; and

WHEREAS AMO and others have urged the government to consider the potential implications of Bill 206 and to ensure the proposed policy changes protect the interests of employers, employees and taxpayers; and

WHEREAS the Government is moving in haste with a Bill, which in its current form raises significant technical, public policy and economic issues;

THEREFORE BE IT RESOLVED THAT (Name of municipality) does not support Bill 206, and requests the that the Government of Ontario reconsider the advisability of proceeding with Bill 206 in its current form; and

FURTHER IT BE RESOLVED THAT (Name of Local MPP), the Honourable John Gerretsen, Minister of Municipal Affairs and Housing, the Honourable Dalton McGuinty, Premier of Ontario, and the Association of Municipalities of Ontario be advised that this Council does not support proposed changes to the OMERS pension fund contained in Bill 206.

This information is available in the Policy Issues section of the AMO website at www.amo.on.ca

For more Information, contact 416-971-9856: Pat Vanini, Executive Director, at ext. 316 or Brian Rosborough, Director of Policy at ext. 318