MYTHBUSTER

There's a lot of misleading information circulating about "Shared Risk Indexing", from OMERS management, and from other Sponsor Organizations. Here's the truth about OMERS "Shared Risk Indexing" proposal.

Myth: "Shared Risk" Indexing is different than conditional indexing.

Fact: "Shared Risk" Indexing is conditional indexing; it is not fundamentally different. Like all forms of conditional indexing, this proposal would end the OMERS promise to provide fully indexed pensions, and instead leave it up to a Board of Directors to decide year to year. There are no binding rules for the Board to follow in making such decisions.

Myth: The OMERS Sponsors Corporation Board of Directors can be trusted to deliver indexing.

Fact: The OMERS SC Board of Directors is made up of half Employer Representatives (I.e. AMO, OCSTA, OACAS) and half Worker Representatives (including 1 Retiree Rep). When making decisions on indexing, OMERS says the Board will be given recommendations pertaining to indexing from the OMERS Management and the Board may act on this recommendation. These are the same people who recently pushed for a series of dramatic governance changes to OMERS that have weakened the voices of workers and their Unions in our pension plan; an effort that's expected to continue in the years to come Worse still, if indexing is cut, it would take all the Worker Representatives votes and at least 3 Employer Representative votes to restore this important benefit for workers.

Myth: Indexing can only be reduced by a 2/3 vote of the SC Board.

Fact: With "Shared Risk" indexing, indexing could also be cut by an arbitrator. A *simple majority* of the Board could refer the matter to arbitration. Under OMERS arbitration process, Unions and employers do not have the standard ability to choose an arbitrator; the Board must choose from a list of 3 arbitrators pre-selected by the OMERS CEO. If there's a deadlock, the CEO will choose unilaterally. Not all Board Representatives are entitled to a voice at an arbitration. The arbitrator can choose which Representatives on the Board can make submissions. The arbitration process also includes limits on outcomes that increase costs, but no limits on outcomes that cut member benefits. Employers will have every incentive to push for the arbitration every year, and the process would be triggered with just one vote from the Worker side of the Board. If "Shared Risk" indexing is adopted, you could very well lose your indexing despite near-unanimous opposition of Worker Representatives.

Myth: The risk is shared.

Fact: Employers bear no new risks in this proposal, despite the misleading name. Risk is *shifted* from employers on to active members and future retirees. Instead of risk being shared equally between employers and Plan members, like with a contribution rate increase, it is only today's active members (future retirees) that bear the risk – of cuts to your indexing. Again, it's no surprise that employer organizations support this proposal.

Myth: A cut to indexing would only be temporary ("the reduction is only for ONE YEAR").

Fact: There is no requirement that a cut to indexing be temporary. **A permanent cut to indexing is a real possibility**. The Board of Directors can pass multi-year resolution to cut indexing in one go, or indexing could be reduced without an end date. The OMERS SC CEO has admitted that if the Board were to cut indexing, it would be unlikely that it would only be for one year. While OMERS has created an arbitrary maximum limit on contribution rates, there is no limit to reducing indexing in this proposal.

Myth: A cut to indexing would be rare (I.e. only if there's "a significant negative economic event in the future").

Fact: There is no requirement that indexing only be cut in the event of a rare economic shock. Once indexing is no longer guaranteed, it could be cut at any time by a future Board of Directors. In fact, it would likely be part of the first measures to be taken, when the Plan faces a funding pressure.

Myth: A cut to indexing would only happen after an increase to contribution rates.

Fact: Under OMERS' proposed guidelines, an increase to contribution rates and a reduction in benefits like indexing would happen at the same time. It is not the case that a Plan deficit would first be addressed with a contribution increase, and then only if necessary, a cut to indexing. OMERS proposes that these actions are simultaneous. This means Plan members bear more risks in future downturns; we lose benefits AND pay half of the remaining required contributions. This means less risk on employers compared to the status quo.

Myth: "Shared Risk" Indexing will be fully funded, which increases the chances that it will be delivered.

Fact: If indexing is cut, plan funding for indexing will decrease, making it less likely that full indexing will be restored. We are not aware of another pension plan with conditional indexing that actually reduces funding for indexing when conditional benefits are not delivered. This lets employers off the hook, since they bear no burden if indexing is cut, and leaves members bearing too much of the burden in a downturn.

Myth: "Shared Risk" Indexing is a step above other pension plans that have conditional indexing.

Fact: OMERS "Shared Risk" indexing proposal is among the weakest forms of conditional indexing among comparator plans. Better forms of conditional indexing increase plan funding in order to increase the likelihood that the conditional benefit will be delivered. The OMERS proposal will not increase plan funding to compensate for the new risks of making indexing non-guaranteed. The proposal leaves in place a guideline that establishes an arbitrary funding limit, which will increase pressure to cut indexing. Even worse, OMERS says that funding will be *reduced* if indexing is not delivered. This is actually a step below plans like the Ontario Teachers' Pension Plan (OTPP). OTPP stipulates that if conditional indexation is not delivered, the employer must put extra money into the plan so that the risk-sharing nature of the plan is continued – both sides "share the pain." OMERS "Shared Risk" proposal makes no such stipulation. It's possible for indexing to be cut for members with no impact on employers. No wonder employers support this concessionary proposal!

Other plans with conditional indexing have binding "triggers" designed to better protect members' non-guaranteed indexing. For example, any lost indexing MUST be restored before employer contribution rates come down; indexing cuts can ONLY be considered when the plan is in deficit, and when then plan returns to surplus, indexing WILL resume, etc. OMERS has put out a rough set of guidelines that the Board *may* follow. **None of these triggers would be binding on the SC Board of Directors**. OMERS considers them as a guideline, but **not a requirement** for future Boards of Directors. Would your employer voluntarily support bringing back members' indexing, or would they first push to reduce their own pension contributions?

Myth: This is necessary for intergenerational equity.

Fact: This proposal will create intergenerational conflict between active members and retirees. Future OMERS SC Boards confronted with funding pressure will have to weigh the limited options of addressing funding pressure on the backs of retirees' by cutting their indexing or increasing contributions for active members and employers or reducing active members' prospective benefits. Retirees have only 1 vote at the Board. The rest of the Worker Representatives are appointed by Unions, who only represent active members. We know Employers will not want to increase their contributions. It's clear there will be substantial pressure to cut indexing. Defined Benefit plans work best when generations of workers and retirees stand together.

Myth: "Shared Risk" Indexing will save OMERS members from further benefit cuts.

Fact: Accepting this proposal will not prevent further benefit cuts. The Board of Directors could easily start planning further benefit cuts the day after their vote on "Shared Risk" Indexing.

Myth: OMERS has been transparent with Sponsors and Plan members in this process.

Fact: OMERS has developed projections on how much indexing is likely to be provided if this proposal is passed. CUPE Ontario has repeatedly and directly asked to see this modeling. OMERS refuses to share it with us or with Plan members. OMERS will not explain what eliminating guaranteed indexing could mean for your future. OMERS also refuses to disclose the full text of the “Shared Risk” indexing amendment to the Plan text and by-laws that are being voted on. As described above, there are serious concerns with the accuracy of the summary information that OMERS is posting and information being circulated by some Sponsor Organizations.