ANALYSIS OF OPTRUST SELECT

This document has been prepared based on the memo of February 15, 2018 prepared by OPTrust Actuarial Services entitled OPTrust Select–Sustainability Analysis, as well as a meeting of the Sponsors' Technical Working Group on March 1, 2018.

Design Confirmations From Meeting

- No indexation to pensions in the deferral period
- Commuted values will not include indexation in deferral or payment period
- Annual upgrades to accrued benefits for active members will be based on increases in AIW
- Upgrades and pensioner indexation will have a catch-up provision
- Participation for employees of a new employer will be mandatory by class

Actuarial Assumptions

- 5.60% discount rate used in the calculations is the discount rate for the management valuation; last filed valuation used 5.40% and this may be reduced to 5.30% for current valuation
- 5.60% discount rate is also the investment return that would have to be achieved so that Present Value of Future Intended Benefits and Present Value of Future Contributions are in equilibrium (based on the population used for the calculations, which is addressed below)
- Initial actuarial assumptions are same as those used for main schedule of benefits; will be tailored over time to Plan Select as experience evolves

Actuarial Methodology

- Key metric will be the testing for new entrants to ensure that Present Value of Future Intended Benefits versus Present Value of Future Contributions stays in equilibrium
- Probability of Contributions Sustaining Intended Benefits at 57% similar to percentage for main schedule of benefits; comparability of those ratios needs to be maintained to avoid cross subsidies
- Probability increases to 84% for just Core Benefits so benefit levers provide significant risk mitigation opportunities for Plan Select; note that in an environment where Plan Select would only be able to provide the Core Benefits, there would have to be significant contribution increases or future benefit reduction under the main schedule of benefits
- Deficits and surpluses will be determined based on experience for the entire Plan and then allocated to the main schedule of benefits and Plan Select based on the accrued liabilities of active members under each of those programs (accrued liabilities for Plan Select would be based on the Intended Benefits; funding policy will detail the methodology) (see next page)

Funding Policy

- Existing funding policy explains how a deficit for the OPSEU Pension Plan is to be funded: Two options, either a contribution rate increase or a future benefits reduction (e.g., ad hoc or conditional indexation)
- New funding policy would have to detail:
  1. How to allocate the deficit between the main schedule of benefits and Plan Select
  2. How to deal with the portion of the deficit in the main schedule of benefits (still reduction in future benefits or contribution rate increase)
  3. How to deal with the portion of the deficit in the Plan Select schedule of benefits, including
     (i) How much gets allocated to employees versus retirees
     (ii) How do you reduce conditional benefits within Plan Select (e.g., benefit upgrades versus indexation of retiree benefits)
     (iii) What is the threshold for increasing the contribution rate
- Funding policy will be a public document

Comments

- Not a significant risk of cross subsidies that are detrimental to the Plan Sponsors for a number of reasons:
  - It will likely take many years for the number of employees under Plan Select to be at a meaningful level relative to the number of members under the main schedule of benefits
  - The benefit levels (including ancillary benefits) are less than 1/3 of the main schedule of benefits
  - Plan Select has significant benefit levers that can be used to address unfavourable experience
- Some concern about assessing required contribution levels for Plan Select benefits based on current active members under the OPSEU Pension Plan but that will be addressed by regular monitoring of the new entrant equation referenced above to reflect the actual demographics of the groups joining Plan Select
- More potential for Plan Select to bear the risk of the main schedule of benefits in a disproportionate way
- With Plan Select, risk mitigation is mostly on the member side because benefit levers are the main tools; may create ongoing governance issues around decision-making with respect to Plan Select
- Funding policy will be a critical document for new groups in order to assess the Plan Select option and to prevent “leakage” from the main schedule of benefits to Plan Select