



Preliminary Analysis of OMERS Options

City of Toronto Pre-OMERS Pension Plans

Purpose and Scope

This preliminary analysis has been prepared by OMERS Administration Corporation (OAC) in accordance with the Government Committee Recommendations: GM3.9 – “City Sponsored Pre-OMERS Pension Plans and the Toronto Transit Commission (TTC) Pension Fund Society”. These recommendations were adopted by City Council at its meeting of May 17-19, 2011.

This analysis is the first of a two phase initiative. This phase, a high level analysis, is intended to assist in narrowing the options. Further analysis would then be undertaken on the option that appears most likely to provide efficiencies in the administration, investment and/or funding of the pre-OMERS pension plans. All of the information is provided to the best of OAC understanding at the time of writing, but may change over time, and does not bind the OAC to any particular pricing or option.

In addition, this analysis is based on financial information as of December 2010, whereas any of the options and the related financial impact would be finalized based on the date of the transaction. City of Toronto staff have confirmed the accuracy of references in this report to the five (5) pre-OMERS pension plans (Plans). A separate analysis is provided for the Toronto Transit Commission (TTC) Pension Fund Society (PFS).

OMERS

OMERS is the pension plan for City of Toronto employees hired since July 1, 1968. The OMERS Primary Pension Plan (OMERS Plan) is:

- a jointly-sponsored pension plan with close to a fifty year tradition of strong employer/member governance;
- a large multi-employer defined benefit plan with more than 400,000 members from about 930 employers;
- a large, experienced pension fund investor pursuing a global investment mandate with total assets of \$53 billion as of December 2010; and
- a direct investor of over \$25 billion in the Ontario and other regional Canadian economies through major infrastructure, real estate and energy assets.



Executive Summary

This table summarizes key data of the five Plans at December 31, 2010:

Plan	Membership	Market Value of Plan Assets (\$ millions)
Metropolitan Toronto Pension Plan (Metro)	2,765	\$564
Toronto Civic Employees Pension & Benefit Fund (Civic)	1,417	\$369
Metropolitan Toronto Police Benefit Fund (Police)	2,068	\$559
Corporation of the City of York Employee Pension Plan (York)	238	\$50
Toronto Fire Department Superannuation and Benefit Fund (Fire)	897	\$271
TOTAL	7,385	\$1,813

Currently, the ongoing costs paid by the City for the five Plans noted below include:

- \$14.6 million per year in 2011 grading down to \$3.5 million per year in 2015 for a total of \$55.4 million (\$50.7 million for Police and \$4.7 million for York) over 2011-2015 (solvency funding payments); and
- \$1 million per year paid by the City (direct administration costs), plus additional costs through the Plans.

In addition, for the plans which are in deficit, the City recorded a \$29 million employee pension liability in its financial statement balance sheet at the end of 2010.

While OMERS has provided information on three options as requested by the City, only the merger option (option 3) potentially results in significant cost savings and other favourable financial impacts. The investment management option would have minor savings or benefits in comparison, and the pension administration option would not be beneficial given the administration functions that cannot be transferred to OMERS.

The \$1.8 billion in assets in the Plans includes approximately \$200 million in surplus at December 31, 2010. Merger with OMERS could result roughly in an additional \$80 million being available for benefit improvements or other disposition as of the same date. *These are estimates based on data as of December 2010; however, the final amounts needed for merger, and any applicable surplus, would be determined based on the date of the merger.* As a result of recent and potential future volatility in the markets and regulatory requirements, the actual financial impact of a merger may be significantly different from the estimates shown in this report.

The merger would be more effective under new pension regulations that are pending but not yet available from the Ontario government. OMERS and the City could approach the government for discussion. The merger approach would require time – assuming regulations are final by Q1 2012, the transaction could be completed by January 2013, but there are many stakeholders involved in a merger, and many steps which are required. Timing is not guaranteed.

OMERS is interested in this merger in response to broader government priorities. The provincial budget issued in Spring 2011 noted the 70 plus broader sector pension plans and the



need to consolidate them – this is consistent with the Expert Commission on Pensions' call for plans to merge together in many ways to promote more efficient and effective pension plans. OMERS is well-positioned to assist in helping our traditional employers attain this goal. In addition, OMERS is:

- the only Ontario public sector plan that includes “associated employers”;
- one of two public sector plans with authority to provide third party investment management and administrative services; and
- historically, a provider of administration and investment for other smaller public sector plans.

As the pension plan representing the vast majority of City of Toronto employees, we believe there are synergies achievable through a merger to bring all City members and pensioners together in the same plan. As a result, merger should be explored to assess the mutual benefit to the City and OMERS.

As set out above, merger with OMERS would potentially:

- eliminate the ongoing costs (after netting one time transition costs);
- remove the balance sheet liability for plans in deficit;
- generate surplus assets for benefit improvements or other disposition; and/or
- eliminate the need for funding payments from potential future shortfalls.

OMERS has no current intention to pursue pension administration (option 2). The investment management option (option 1) could only be pursued by each of the Plans administrative bodies, in direct discussions with OMERS Investment Management (OIM).

Options under Consideration

The three options being considered with OMERS are:

- Option 1: Investment Management through OMERS
- Option 2: Pension Payroll and Member Services through OMERS
- Option 3: Full Merger with OMERS

Option 1: Investment Management through OMERS

Currently, the investment of plan assets is the responsibility of each of the five (5) Pension Committees / Board of Trustees (collectively referred to as the Boards). Under City by-laws, each committee or board is responsible for establishing investment policies and objectives, selecting investment managers to assist with the investment of plan assets and monitoring of the managers' performance. The City's by-laws give the Boards authority over the investment products and investment management decisions of the Plans.

This option involves retaining OMERS for the purpose of investment management in whole or in part. The five Boards would continue to have oversight responsibility of the investment of the plan assets. However, instead of retaining individual investment managers for each pension



plan, OMERS would act as the (or one of the) investment manager(s) for the Plans depending on whether the assets are managed in whole or in part by OMERS. City Council, as the sponsor of the Plans, would continue to be responsible for all administration functions and funding of any funding deficiencies.

OMERS Investment Management

OIM was founded in 2009 in response to legislative authority granted to the OMERS Administration Corporation (OAC) to provide investment management services through an authorized subsidiary.

OIM offers eligible clients access to one of two arrangements:

- T Contract - An investment contract that pays the annual total fund return earned by the OMERS Plan. This offering is targeted at funds with \$100 million to \$500 million of capital that can be fully invested in an OMERS Total Fund Return contract, less cash required to meet current obligations.
- S Contract – An investment contract targeted at larger funds (>\$500 million), looking to gain exposure to one of the following private market returns:
 - The annual return earned by Borealis Infrastructure
 - The annual return earned by Oxford Properties
 - The annual return earned by OMERS Private Equity (OPE) – in relation to the directly managed assets in the OPE portfolio.

Each of the five Plans could be eligible to participate in a T Contract through OIM, that would allow the Plans to place their assets in an investment contract that pays the annual return earned by the OMERS Plan fund (and in accordance with the OMERS Plan asset mix).

Specific terms apply to the contractual arrangements with respect to maximum limits and timing, which would need to be considered in the context of each of the Plans (and would mean, for example, that the placement of the total aggregated funds from the five plans would need to be phased in over time).

Investing in an OIM product would be a decision to be made by the Boards of each of the Plans based on their investment needs, after direct discussions with OIM. Given the need for detailed discussions with each Board and other conditions of the OIM arrangements, this option may take a period of time (e.g. 12 -24 months) to fully implement for all five Plans. The information set out in this report cannot bind either the Plans or OIM, but is provided as relevant to the consideration of such investment products.



Comparisons between OMERS and the Plans

Note that detailed discussions about the appropriateness of an OIM arrangement for each of the five Plans would be required between OIM and each of the Boards – these discussions cannot be anticipated through this Report.

1) Past investment performance (Exhibit I)

- OMERS gross returns have exceeded the returns for each of the Plans on average for the 5 and 7 year period ending 2010. In addition, the OMERS Plan expects lower volatility due to its investment strategy and asset mix reflecting the size of its assets.

2) Investment management fees (Exhibit I)

- For 2010, OMERS investment management expenses are higher (i.e. 0.64 per cent compared to 0.2 per cent to 0.4 per cent under the Plans).
- The fixed fees under the T and S Contracts are paid annually and would be higher than the Plans' 2010 investment management expenses. These fees are higher than the OMERS investment management expenses as well.
- However, based on the 2010 information provided by the Plans, the OMERS 2010 investment performance, after adjusting for OIM fees, would still have produced greater net investment gains for each of the five Plans. OIM did not exist prior to 2010. Past returns are no guarantee of future returns – however, OMERS history of returns is publicly available and has been a strong element of OMERS ability to keep the pension promise.

3) Asset mix (Exhibit II)

- Exhibit II sets out the specific asset mixes of OMERS and the Plans. While OMERS has assets that could be categorized as equity or fixed income (like the Plans), OMERS asset mix is allocated according to public and private markets. OMERS has developed this approach to achieve long-term, stable returns with low volatility, building on our asset size of \$53 billion as of December 31, 2010. As a result, many aspects of the OMERS asset mix and structure are more complex and not directly comparable to those of the Plans.
- Each Board would have to consider the appropriateness of the OMERS asset mix to their membership and other circumstances.

4) Membership data (Exhibit III)

- The Plans' membership consists of approximately 7,400 retired members and survivors with only 18 non-retired members remaining.

Investment changes do not require plan amendments, but may require changes to the applicable Statements of Investment Policies and Procedures for the Plans (under the authority of the Boards as administrators). The administrators of the Plans must make such investment decisions on a fiduciary basis.



Option 2: Pension Payroll & Member Services through OMERS

This option would involve moving the responsibility for the day-to-day pension payroll of the Plans to OMERS, from City of Toronto staff. This includes running the pension payroll and required payments, managing banking services for the pension plans, pension reporting, and responding to pensioner inquiries.

City Council, as the sponsor of the Plans, would continue to be responsible for funding any funding deficiencies, providing support to Boards, preparation and filing of actuarial valuation reports and all other legislative requirements. The Boards would continue to have a fiduciary responsibility to direct and manage the affairs of the Plans, including the investment of Plan assets, and provision of the actuarial valuations.

In order to provide these services, OMERS would be required to create a subsidiary for third party administration purposes. Currently, OMERS does not have a legal structure in place to do this and would require internal approvals to proceed. An implementation period of about 18-24 months would be required to set up such a structure.

Comparison of Costs

As indicated in Attachment 2 to the April 13, 2011 Treasurer's Report to the Government Management Committee, the City's total administration cost is \$1,035,000 for 2010. A breakdown of this cost is shown in the table according to information provided by the City to OMERS.

OMERS has developed estimates for pension administration services for the Plans in aggregate. OMERS services would replace the current pension payroll, tax reporting and member support services of the City's current ongoing administration activities. Other ongoing administration activities related to Board support and sponsor duties (filings, etc) would be retained by the City. These retained amounts are relatively high as there are five Plans, all requiring separate support and filings – functions which cannot be transferred to OMERS. All amounts including year 1 and year 2 costs are in 2010 dollars. Actual costs for both the City and OMERS would likely rise each year due to inflation and other factors.



Administration Cost Estimates Based On 2010 Dollar Values	Pension Payroll & Member Services through OMERS	Current City Arrangement
	Estimated Total Cost	Estimated Total Cost
Start Up (Year 1)	\$750,000 (payable to OMERS)	Not Applicable
Pension administration functions, including payroll, tax reporting, member service support etc.	\$ 480,000 (payable to OMERS)	\$390,840 ¹
Board support functions performed by City Staff - financial reporting and audit functions, regulatory reporting	\$200,160 ¹	\$200,160 ¹
Other City-incurred support cost ²	\$444,000	\$444,000
Total Cost		
• Year 1	\$1,874,160	\$1,035,000
• Year 2 and beyond	\$1,124,160	\$1,035,000

¹ Breakdown of these costs provided to OMERS by the City

² This category includes support not performed by the City's administration staff, including the cost of legal services, accounting valuation reports, audit fees, senior management and Board Honorariums (where applicable). In addition, the Plans would continue to bear the costs of actuarial services, investment consultants, custodial services, investment management and Board Honorariums (where applicable).

OMERS start up costs include the expense of creating a new entity to take on the third party administration work as well as changes required to the OMERS administration systems. The start up cost would apply regardless of the number of City Plans (ranging from one to all five) electing OMERS administration.

The \$480,000 in OMERS annual costs includes services such as monthly direct deposits, T4A reporting, pensioner record maintenance, call centre support, production of annual statements, newsletters and other communication materials and mailing costs.

The structure of the City's full administrative needs restricts the transfer of full administrative functions to OMERS. As a result of the restriction to potentially transferring only part of the pension administration function to OMERS, there would be no cost savings for the City. In addition, the OMERS start up cost of \$750,000 would also have to be addressed – given the closed and declining group of members, these costs would be relatively high compared to the ongoing administration amount.

Note: While OAC has provided the costing and logistical information as requested, OAC has no direction or immediate intention to create a subsidiary to provide such services.



Option 3: Full Merger with OMERS

This option involves transferring all of the assets and liabilities of the five Plans into the OMERS Plan through a full merger.

A full merger option would result in the City no longer being considered the Plan sponsor. Depending on the regulatory requirements, the funding requirements of the City for past service and benefits under the Plans would be settled at the time of merger. No contributions would be required on a go-forward basis as the remaining active members all have over 35 years of service and no longer accrue new benefits under the Plans.

Additionally, there would no longer be a requirement for individual Boards as plan governance, administration and the investment management would be transferred to the OMERS Plan. While the Plans currently pay for actuarial, investment and custodial fees, the City pays directly for administration, audit, finance and legal expenses. Depending on regulatory requirements, the City would likely realize costs savings under this option with no further funding commitments for the Plans, or administration and external service provider fees. This option could also create surpluses within the existing funds (e.g. for benefit improvements), as described below in the comparison of financial position.

While there are regulatory hurdles, and uncertainty due to the need for further regulations, this option would integrate all City members, past and present in the same pension plan, the OMERS Plan, and simplify administration of the Plans in ways the first two options do not achieve. The following analysis gives a starting point for this option and, if direction is given, discussion about the regulations with the appropriate Ministry of Finance staff.

Comparison of Benefit Provisions (Exhibit IV)

The Plans are similar to the OMERS Plan – and merger rules require any pensioner benefits to be maintained or improved. The key difference between the Plans and the OMERS Plan relates to the annual increase to pensions in pay. Under the OMERS Plan, an automatic or guaranteed increase is provided each year (matching the Consumer Price Index up to a maximum of 6 per cent per annum).

Cost-of-living adjustments for pensioners under the Plans are not automatic or guaranteed:

- Civic, Fire and York provide increases, contingent on conditions specified in each of the By-Laws, including sufficient investment return.
- Metro and Police allow the Boards to bring forward recommendations of ad-hoc increases to Council for consideration, depending on the financial status of the plan.

Under the OMERS Plan, the five-year average increase (from 2006 to 2010) for pensions payable after retirement is 1.4 per cent per annum. The ad hoc or contingent five-year average increase for Fire is 0.9 per cent, and those for Civic and Metro are both 1.7 per cent per annum. No increases were provided under Police and York during the same five years as a result of their financial position.

The details of how benefits from the Plans would be provided after a potential merger with the OMERS Plan would be addressed in a merger agreement and subject to regulatory approval, as



well as to applicable approvals of the OMERS Boards and City Council. It is expected that all pensioners at the time of merger (which could include some or all of the small number of current active members) would receive the same basic pension. The level of indexation will depend on the amount of funds provided for that purpose, and accordingly a fixed formula to address indexation in place of the ad hoc or contingent indexation mechanisms. Active and deferred members, given their particular circumstances, may be treated in a similar fashion.

The nature of the Plans is different. The Plans are single employer plans sponsored and guaranteed by the City of the Toronto while the OMERS Plan is a jointly-sponsored pension plan that is jointly managed and funded by members and employers. At the same time, the OMERS Plan is a large multi-employer pension plan which provides stability and continuity. The Plans must be funded on a solvency basis while the OMERS Plan is exempt from mandatory solvency funding requirement.

These differences highlight the high level of security provided by OMERS. In addition, the government recently allowed the conversion of the TTC PFS to a solvency-exempt jointly-sponsored pension plan without additional costs being levied on the sponsor. Given these facts, there are strong policy reasons for encouraging mergers that protect members without requiring additional solvency payments.

Comparison of Financial Position at December 31, 2010 and Minimum Funding Requirements for 2011 (Exhibit V)

The Civic, Fire and Metro plans are in surplus position on both going concern and solvency bases so that no City of Toronto contributions are required for 2011 – 2013 (the period covered by the December 31, 2010 actuarial valuation reports). Police and York have solvency deficiencies at December 31, 2010 which means City of Toronto contributions are required for 2011 – 2015 (\$50.7 million for Police and \$4.7 million for York in total without interest for 2011 – 2015).

The Plans use more conservative funding assumptions than those used under the OMERS Plan – this is because the Plans are relatively small and have limited risk pooling capability on a standalone basis.

This difference in assumptions means that if the Plans were to merge with the OMERS Plan, the same benefits could be provided with a likely reduction in plan funding going concern liabilities, estimated to be in the range of \$80 million at December 31, 2010. These calculation also assume going concern rules will be applicable to such a merger involving a jointly-sponsored pension plan (OMERS).

- The reduction in liabilities could mean that funding payments are no longer required.
- The reduction does not mean funds are immediately available to the City or members – once a merger is complete, any excess funds would be addressed by the City (through pension regulatory requirements for surplus, including the option of surplus sharing).

Aside from the cash implications above, merger with the OMERS Plan could also have a financial statement implication. Currently, for plans that are in deficit, the City recorded a net deficit as part of the employee benefit liability in the balance sheet. At the end of 2010, this amounted to \$29 million. Merging with the OMERS Plan could potentially eliminate this liability from the City's financial statement.



These reductions are estimates based on data as of December 2010; however, the final amounts needed for merger, and any applicable surplus, would be determined based on the date of the merger.

Merger Under New Rules (Bill 236)

The potential asset transfer and merger of the Plans with the OMERS Plan would likely be subject to several new sections of the *Pension Benefits Act* (PBA). However, as of the date of this report, the Bill 236 amendments have not been proclaimed and the corresponding regulations have not been released.

Any plan merger would take approximately 12-24 months to complete. Given that time horizon and the strong likelihood that the regulations will be in effect during that time, OMERS would focus attention on the new rules. A merger under the current rules would be more cumbersome and unrealistic with the new rules in development.

Bill 236 legislation facilitates the merger of the Plans and the OMERS Plans as follows:

- Mergers would more readily take place without extensive trust law reviews.
- Requirements to provide the same benefits for transferred active members would be relaxed. Benefits would still be the same for retired members and deferred vested members as described above. Improvements would also be possible depending on the funding rules.
- The requirements for funding and related rules for mergers are to be prescribed (including rules to address transfers from single employer plans, like the Plans, to jointly sponsored pension plans, like the OMERS Plan).
- The Superintendent must provide consent if the transfer meets the key requirements which are yet to be finalized.

OMERS and the City therefore have an opportunity to provide important input through examples and discussion with Ministry of Finance, on the requirements of the new asset transfer regulations. Key issues include how to address deficits on a merger, small plan/large plan mergers, and actuarial assumptions used to determine asset transfer amounts.

The ultimate decision as to whether to merge the Plans with the OMERS Plan would be made *after* such regulations are final – however, the information in this Report can support a decision to continue to work on the merger option.

Cost Savings Resulting from Merger

Regardless of whether the merger takes place before or after proclamation of Bill 236, the actual asset transfer amounts from the Plans to the OMERS Plan would be subject to negotiations between the City and OMERS and approval/consent of the Superintendent. Post-merger funding requirements for the Plans, if any, are more likely to be linked to the funding assumptions of the merged plan; however the regulations have not yet been developed.

This merger process would involve one-time costs related to legal and actuarial services (estimates would have to be provided *after* regulations are available), termination of existing arrangements (for the Plans) and transition costs for OMERS administration systems. The



transition costs of implementing the merger for OMERS are factored into the merger agreement and would depend on the nature of the agreement and the regulations.

As an offset to these one-time costs, many contributions and ongoing expenses for the Plans would potentially be eliminated:

- \$14.6 million per year in 2011 grading down to \$3.5 million per year in 2015 for a total of \$55.4 million (\$50.7 million for Police and \$4.7 million for York) over 2011-2015 (solvency funding payments);
- \$1 million per year paid by the City (direct administration costs)

In addition, the merger would potentially make the following surplus available for benefit improvements or otherwise:

- \$200 million of existing surplus; plus
- \$80 million of additional surplus due to a merger with OMERS.

The potential merger transfer amounts, based on reasonable assumptions, from the Plans to the OMERS Plans are set out in Exhibit VI.

Although the regulatory requirements are not known, current funding requirements for past benefits on a merger require settlement at the time of the merger, with no further contributions required of the exporting plan or sponsor. As noted above, current numbers suggest a strong argument that the City would not be required to make any additional contributions to finalize a merger. No contributions would be required for active members on a go-forward basis as all have over 35 years of service and no longer accrue new benefits under the Plans or OMERS.

City Risks in Context

There are a number of potential risks identified in relation to the Options which must be compared to the risks which are inherent in the current pension arrangements. For example, maintaining the status quo for the pre-OMERS pension plans involves financial risk for administration costs and funding payments which could rise or fall over time, as well as the legal risk that stakeholders in the Plans will initiate complaints or legal proceedings.

In broad terms:

- Option 1 could result in different expected net investment returns and volatility than current investment arrangements – the risk mitigation comes through the process that the Boards would undertake to analyze the OIM products for each Plan.
- Option 2 would offer the Plans best-in-class administration. The City and the Plans currently have ongoing risk for accurate and efficient administration – the quality of which will be under pressure with declining Plan budgets. However, this option would likely not lead to administration savings.
- Option 3 is at risk if regulations are not workable or provided on a timely basis – however, the cost of that risk would be limited to any wasted resources in pursuit of the option. The suggested schedule (and indeed the option itself) minimizes this risk by involving external legal and actuarial services after regulations are in place. The additional key risk is that members and members of Boards will be concerned about the prospect of merger – this risk



would be minimized by discussions with the Boards and members once the City gives direction to explore the option further.

Conclusion and Next Steps

Option 1, focused on investment management only, could result in higher net investment returns. Option 2, focused on pension administration functions only, would not result in lower ongoing administration costs, given the administration work that remains with the City for the five Plans. Both of these options leave all other costs and functions of pension administration – and responsibility for funding payments to the Plans – with the City and the Plans.

Option 3, an all-in approach to consolidate or merge the Plans with the OMERS Plan, would have upfront costs to ensure all requirements (to be developed by the Ministry of Finance) are addressed – but the end goal would be complete integration with the OMERS Plan. If successful, there would be no further functions for the City or the Committees / Boards to separately administer the Plans, and there would likely be funding benefits (i.e. funding payments currently required could be avoided; some surplus could be available for approved purposes). While there are uncertainties in this option, OMERS sees value in further investigation. External advisor costs could be kept to a bare minimum until regulations are in place which would allow greater certainty on the value of a merger.

If the City provides direction to continue to investigate this option, and the regulations are in place in the first quarter of 2012, then the merger could be in place by 2013. This 'best case' scenario is set out in the Work Plan attached. The sooner the merger takes place the sooner the pension funding issues are eliminated for the City.

In summary, the City could potentially incur a net cost savings if the merger (option 3) were to take place (with a positive impact on the City's cash flow and budget for the period up to 2015). More specific next steps for Option 3 are set out in the Merger Work Plan.



Exhibit I – Historical Asset Returns and Expenses

GROSS RETURNS	OMERS	CIVIC	FIRE	METRO	POLICE	YORK
2010	12.0%	7.9%	9.5%	9.3%	10.9%	8.7%
2009	10.6%	13.7%	15.0%	14.3%	16.4%	11.6%
2008	-15.3%	-13.8%	-11.9%	-11.3%	-14.1%	-9.7%
2007	8.7%	1.7%	1.3%	1.3%	1.8%	2.4%
2006	16.4%	13.8%	12.2%	10.0%	11.1%	9.6%
2005	16.0%	11.8%	11.4%	8.7%	12.0%	10.9%
2004	12.1%	10.1%	10.1%	7.2%	8.7%	9.2%
2003	12.7%	12.5%	14.3%	9.5%	10.1%	11.5%
2002	-7.1%	1.1%	-1.4%	-5.8%	-4.6%	-8.1%
Av 5 yr to 2010	5.83%	4.1%	4.7%	4.3%	4.6%	4.2%
Av 7 yr to 2010	8.11%	6.0%	6.4%	5.3%	6.2%	5.9%
INVESTMENT M'GMT EXPENSES						
2010	.64%	.2%	.4%	.2%	.2%	.4%
2009	.55%					
2008	.45%					
2007	.40%					
2006	.39%					



GROSS RETURNS	OMERS Primary Pension Plan				
	Overall Plan	Capital Markets	Private Equity	Infrastructure	Oxford (Real Estate)
2010	12.0%	11.0%	22.2%	10.1%	7.5%
2009	10.6%	11.0%	13.9%	10.9%	1.3%
2008	-15.3%	-19.5%	-13.7%	11.5%	6.0%
2007	8.7%	2.6%	18.6%	12.4%	22.9%
2006	16.4%	16.2%	17.7%	14.0%	26.2%
2005	16.0%	12.6%	23.2%	23.2%	26.0%



Exhibit II – Asset Mixes at December 2010

	Target Asset Mix for City Plan At December 2010			
Plan	Equity	Bonds & Fixed Income	Cash and Short Term Equivalents	Total
Toronto Civic Employees Pension And Benefit Fund ("Civic")	50%	50%	0%	100%
Toronto Fire Department Superannuation And Benefit Fund ("Fire")	50%	50%	0%	100%
Metropolitan Toronto Pension Plan ("Metro")	50%	45%	5%	100%
Metropolitan Toronto Police Benefit Fund ("Police")	50%	45%	5%	100%
The Corporation of the City of York Employee Pension Plan ("York")	50%	50%	0%	100%

A detailed breakdown of the actual OMERS asset mix at December 31, 2010 is as follows:

Asset Mix for OMERS At December 2010	
Asset Classes	Actual Asset Mix
Public Markets	60.1%
Private Markets - Private Equity - Infrastructure - Real estate - Total	12.7% 15.5% 11.7% 39.9%
Total	100.0%



Exhibit III

Membership Data at December 31, 2010

		PRE OMERS Plans					
MEMBERSHIP	OMERS	CIVIC	FIRE	METRO	POLICE	YORK	Total
Retirees	93,202 (Avg Age = 71.3)*	772 (Avg Age = 80.3)	558 (Avg Age = 75.6)	1,724 (Avg Age = 78.6)	1,335 (Avg Age = 72.9)	142 (Avg Age = 79.0)	4,531 (Avg Age = 76.9)
Survivors	20,364 (Avg Age = 78.9)*	643 (Avg Age = 82.5)	339 (Avg Age = 78.2)	1,031 (Avg Age = 80.8)	727 (Avg Age = 77.6)	96 (Avg Age = 82.0)	2,836 (Avg Age = 80.1)
Deferred	36,907	1	0	4	0	0	5
Actives	259,273	1	0	6	6	0	13
Total	409,746	1,417	897	2,765	2,068	238	7,385

*NRA65



Exhibit IV – Comparison of Benefit Provisions

The comparison of plan provisions amongst the five Plans and the OMERS Primary Pension Plan is limited to indexing provisions and spousal benefits (i.e. annuity forms at retirement) only since the bulk of the affected membership is retirees. Out of the 18 non retired members remaining at December 31, 2010, 13 are active members (who have more than 35 years of credited service) who no longer accrued any credited service and who already qualify for an unreduced pension. The remaining 5 are deferred vested members.

PLAN PROVISIONS	OMERS	CIVIC	FIRE	METRO	POLICE	YORK
Indexing Provision	Contractual	Excess Interest (if surplus)	Excess Interest (if surplus)	Ad-Hoc	Ad-Hoc	Excess Interest (if surplus)
Amounts						
2010	1.61%	1.84%	0.00%	1.78%	0.00%	0.00%
2009	0.37%	0.29%	0.29%	0.30%	0.00%	0.00%
2008	2.51%	2.34%	0.00%	2.37%	0.00%	0.00%
2007	1.99%	2.16%	2.16%	2.14%	0.00%	0.00%
2006	0.70% ¹	2.04%	2.04%	2.01%	0.00%	0.00%
Average: 5 years	1.4%	1.7%	0.9%	1.7%	0.0%	0.0%
Spousal Benefits	66 2/3% to surviving spouse	66 2/3% to surviving spouse	66 2/3% to surviving spouse	66 2/3% to surviving spouse	66 2/3% to surviving spouse	60% to surviving spouse; guaranteed for 5 years

¹ Prior to OMERS change to align its indexing provision with that similar to the CPP.



Exhibit V – Comparison of Financial Position at December 31, 2010 and Minimum Funding Requirements For 2011

Dec 31, 2010 Valuation Results (\$ Millions)	OMERS	CIVIC	FIRE	METRO	POLICE	YORK
Going Concern						
Assets	\$55,568	\$ 376	\$271	\$555	\$546	\$50
Liabilities	\$60,035	\$263	\$239	\$485	\$544	\$50
Surplus/(Deficit)	(\$4,467)	\$112	\$32	\$70	\$2	(\$.340)
Solvency						
Solvency assets	\$57,214	\$369	\$271	\$547	\$539	\$49
Solvency liabilities	\$56,203	\$287	\$270	\$516	\$585	53
Solvency surplus/deficit	-	-	-	-	(\$46)	(\$4)
Contribution Requirements For 2011 – 2015						
Normal cost	N/A ¹	-	-	-	-	-
Special payments ²	N/A ¹	-	-	-	\$50.7 ²	\$4.7 ²
Total	N/A ¹	-	-	-	\$50.7 ²	\$4.7 ²

¹ Contribution amounts for OMERS are not shown as they are not relevant to the comparison for the purposes of Option 3. Upon the merger, funding requirements for the Plans, if any, would be determined on a separate basis from the regular minimum funding requirements of the OMERS Primary Plan

² Special payments scheduled from 2011 – 2015 required to amortize solvency deficiencies under Police and York.



Dec 31, 2010 Valuation Results \$(millions)	OMERS	CIVIC	FIRE	METRO	POLICE	YORK
Key Assumptions						
Real Rate of Return	4.25%	3.5%	3.5%	3.0%	3.0%	3.0%
Inflation	2.25%	2.25%	2.25%	2.5%	2.5%	2.5%
Mortality	UP94 with generational mortality projection using Scale AA (multiplier of .85 for females)	UP94 with generational mortality projection using Scale AA	UP94 with generational mortality projection to 2005 using Scale AA	UP94 with generational mortality projection using Scale AA	UP94 with generational mortality projection using Scale AA	UP94 with generational mortality projection using Scale AA



Exhibit VI – Illustration of Potential Asset Transfer Amounts to OMERS Plan

Results At December 31, 2010 (\$ Millions)	CIVIC	FIRE	METRO	POLICE	YORK	TOTAL
Market Value of Assets	\$369	\$271	\$564	\$559	\$50	\$1,813
Going-concern Liabilities (per current Plans assumptions)	\$263	\$239	\$485	\$544	\$50	\$1,581
Surplus (per current Plans assumptions)	\$106	\$32	\$79	\$15	-	\$232 ¹
Potential reduction in going-concern Liabilities ² (per OMERS assumptions)	\$8	\$4	\$30	\$39	-	\$81 ¹
Potential surplus (per OMERS assumptions)	\$114	\$36	\$109	\$54	-	\$313 ¹

¹ Currently, the Plans have a total surplus of over \$200 million. Merging with OMERS could potentially add another \$80 million to the available surplus which the Plans/City could use for improving benefits for transferred members (for example a level of guaranteed indexation).

² Rough estimate as at December 31, 2010 based on average plan membership statistics found in the respective actuarial valuation reports. The actual change in liability will depend on the membership data and other factors in effect at the official date of the merger.

Note: that all data is as December 31, 2010 – actual amounts to be transferred, with potential reductions in liabilities and/or potential surpluses available would be calculated at the transfer date based on the regulations in effect at that time. As a result of recent and potential future volatility in the markets, the actual financial impact of a merger may be significantly different from the estimates shown above.