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May 24, 2013

Councillor Karen Stintz  
Chair, Toronto Transit Commission  
100 Queen Street West, Suite B32  
Toronto, ON M5H 2N2

Dear Chair Stintz:

Re: TTC Board Meeting No. 1959 - Agenda Item 8, "*Other Business*": Pension Fund Society  
72<sup>nd</sup> Director's Newsletter for 2012 (DRAFT)

OMERS is in receipt of a copy of a draft newsletter for the Toronto Transit Commission (TTC) Pension Fund Society (PFS) which we understand is an item before the TTC Board for approval at its May 24, 2013 meeting.

There are material errors in the draft newsletter under the heading "OMERS Update" that we must draw to your attention.

We expect the TTC PFS to correct these errors - it would be highly inappropriate for a TTC PFS document to mislead plan members. It is particularly important that the information provided to plan members be consistent with the facts in the public record, including the reports presented to Toronto City Council.

#### Financial Benefits to TTC and PFS members if PFS merged with OMERS

The draft newsletter suggests that a merger of the PFS with OMERS would not result in significant cost savings. This statement is inconsistent with the financial benefits identified by OMERS in a prior meeting with the TTC Commissioners. In summary, there are a number of potential financial benefits to the TTC and the PFS members if the PFS merged with OMERS:

- Legacy Solvency Deficit – A merger could eliminate any need to fund the current legacy solvency deficit and could generate annual savings of between \$37 million and \$41 million in funding costs. These costs are currently shared by the TTC and the PFS members.
- Administrative Expenses - consolidation with OMERS would save the TTC between \$1.5 and \$2 million a year in administrative expenses (borne fully by the TTC).

These estimates were set out in a report prepared by OMERS and presented to City Council in Fall 2012.

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THE COMMISSION

MAY 24 2013



## Other Material Errors

The draft newsletter contains several significant inaccuracies about OMERS which we must draw to your attention:

- Risk Management - The discussion of the TTC PFS' "superior risk management model" (its ability to alter benefits and contributions to adjust to circumstances) suggests that OMERS does not have this option. OMERS has been a JSPP for many years, and when appropriate, our Sponsors Corporation adjusts benefits and contributions to address deficits. This discussion as it relates to OMERS is false and misleading.
- Comparability of Benefits and related Benefits Cost - The report states that the OMERS NRA 60 benefits are "most comparable to that of the PFS" and involve contribution rates approximately 17% above PFS rates. *The rates are higher because the benefits are NOT comparable.* The benefits for OMERS NRA 60 are based on final average wages and guaranteed indexation of up to 6% each year – which provide greater protection than the career average benefits with a 2010 base year and *ad hoc* indexation under the TTC Pension Plan.
  - To suggest that OMERS provides comparable benefits to the TTC PFS for higher cost than the TTC PFS is clearly and categorically incorrect.
  - The OMERS report provided to the City Council shows that OMERS could provide a similar value benefit to the TTC PFS benefits at *lower cost* – given our size and efficiencies.
- Funded Status - The comparison of the funded status of the two plans fails to include the fact that OMERS has no solvency payments but the TTC PFS is still responsible for legacy solvency payments – such payments are on top of the going concern unfunded liabilities shown in the chart. In addition, the funded status is only one of many determinants of plan cost and benefit security – as a significantly larger plan with a more diverse asset mix, a larger capital base and a greater ability to pool risks and opportunities, OMERS gains efficiencies and offers numerous benefits to TTC PFS members in many areas.
- Cost Savings of Merger – As noted above, the statement that there would be no cost savings to a merger is contrary to the conclusion of the OMERS report that it is likely there would be cost savings of between \$37 and \$41 million per year. This statement is also contrary to the conclusions of the City Council on reviewing that report.

OMERS is not aware of any actuarial analysis undertaken by the TTC PFS or of any material costs incurred by the TTC PFS or the TTC in connection with the potential merger analysis.



Please consider this information before your Board approves the referenced item on today's agenda.

Regards,

A handwritten signature in black ink, appearing to read 'Ian MacEachern'. The signature is fluid and cursive, written over a light grey horizontal line.

Ian MacEachern  
Vice President, Government and Stakeholder Relations  
OMERS Administration Corporation

Copies to:

Maureen Adamson (Vice Chair)  
Councillor Maria Augimeri  
Councillor Raymond Cho  
Councillor Josh Colle  
Councillor Glenn De Baeremaeker  
Nick Di Donato  
Alan Helsey  
Councillor Peter Milczyn  
Councillor John Parker  
Anju Virmani  
Any Byford (CEO, Toronto Transit Commission)