

MEMORANDUM

Date: November 5, 2024

To: CUPE Locals and Sectors Participating in the OMERS Pension Plan

From: Mark Janson, Senior Research Officer

Re: OMERS Contribution Rates Changing in 2027

The Ontario Municipal Employees Retirement System's (OMERS) contribution rates are changing in 2027.

OMERS has four different contribution rates to reflect the fact that different groups of OMERS members earn different pension benefits. For example, OMERS members earn their pension at a greater rate on earnings above the "Yearly Maximum Pensionable Earnings" or YMPE

(a federal government measure that is set at \$68,500 for 2024 and raises each year based on the average wage growth in Canada). Because it costs more to provide the higher pension benefits on earnings above the YMPE it makes sense that these higher-earning members would pay more for these more valuable benefits.

The same principle applies to OMERS members in uniformed police and firefighter positions, who are generally able to retire 5 years earlier than other OMERS members. These uniformed members have a "Normal Retirement Age" (NRA) of 60 instead of the standard 65. Because NRA 60 benefits cost more to provide than NRA 65 benefits, NRA 60 members have always paid higher contributions than NRA 65 members to pay for this greater benefit.

The four different OMERS contribution rates paid by these groups (NRA60 vs. 65/Above vs. Below YMPE) are changing in 2027. The contribution rate is paid by the active plan member and the same rate is paid by their employer.

OMERS external actuaries (the mathematicians of pension plans) produced a contribution rate study that led to this change; and OMERS itself has changed its internal policies about how these contribution rates are set.

While the total amount of money flowing into the pension plan is not expected to change, some workers will pay more, and some workers will pay less.

	Current Contribution Rates (in effect since January 1, 2015)		Approved Contribution Rates (effective January 1, 2027)	
	Portion of Contributory Earnings		Portion of Contributory Earnings	
	<u>Below YMPE</u>	<u>Above YMPE</u>	<u>Below YMPE</u>	<u>Above YMPE</u>
NRA 65	9.0%	14.6%	8.6%	15.7%
NRA 60	9.2%	15.8%	9.6%	16.7%

** YMPE refers to the Year's Maximum Pensionable Earnings. It is the earnings threshold used to determine the Base Canada Pension Plan benefits and contributions. The 2024 YMPE is \$68,500.*

OMERS estimates that 70% of plan members will see a contribution decrease as a result of these changes. The vast majority of CUPE members in OMERS would fall into this category and will pay lower overall contributions. CUPE members generally have a “Normal Retirement Age” (NRA) of 65 and the vast majority of CUPE members’ earnings fall into the “below YMPE” group above (since our members’ earnings are usually either wholly or mostly below \$65,800).

For example, CUPE school board worker with annual earnings of \$43,000 would see their OMERS contributions fall from 9.0% currently to 8.6% in 2027. This would effectively be a 0.4% wage increase (equal to a \$172 increase annual earnings) for this member.

CUPE locals that represent paramedics and are considering entering the NRA 60 stream of OMERS should take note that the contribution increase associated with moving from NRA 65 to NRA 60 will be growing further in 2027.

For CUPE members who earn more than the YMPE (\$68,500 in 2024), it is important to note that the “below YMPE” and the “above YMPE” contribution rates work like tax brackets. Members pay the “below YMPE” rate on all earnings up to \$68,500 and only pay the “above YMPE” rate on any earnings above this point. Therefore, at \$75,000 in earnings, a CUPE member (at the new OMERS rates) would pay 8.6% up to \$68,500 and 15.7% only on their final \$6,500 of earnings. It would not be until earnings approach \$100,000 annually (this year, subject to increase in future years) that an NRA 65 members’ total OMERS contribution would start to increase.

OMERS has produced the following helpful chart¹:

Estimated impact on bi-weekly contributions per pay (after tax)*		
Annual Contributory Earnings	NRA 65	NRA 60
\$40,000	Decrease of \$5	Increase of \$5
\$60,000	Decrease of \$6	Increase of \$6
\$80,000	Decrease of \$4	Increase of \$10
\$100,000	Increase of \$2	Increase of \$15
\$120,000	Increase of \$6	Increase of \$16
\$140,000	Increase of \$11	Increase of \$20
\$200,000	Increase of \$23	Increase of \$29

** These figures are approximate and provided for illustration purposes only, based on assumptions and calculated at a point in time. The table was prepared as if the revised contribution rates were in effect in 2024 (i.e., reflects 2024 YMPE of \$68,500, which will increase each year in line with the average Canadian wage increases). In addition, after-tax calculations are based on marginal tax rates at the various earnings levels for Ontario residents in 2024, and assume no additional income. Actual contributions will be based on earnings in 2027 and the actual YMPE which may be materially different than the estimates shown above.*

This decision, like all OMERS decisions about the design of the plan, was made in secret behind the closed doors of the OMERS Sponsors Corporation. CUPE has longstanding concerns about how decisions are made at OMERS, regardless of whether those changes benefit our members (like this change generally does) or whether they are bad for our members (like the 2020 change to remove guaranteed indexation from the plan).

OMERS did not consult sponsors and stakeholders about this change. When CUPE asked for a copy of the actuarial study that was said to justify these changes, and OMERS refused to share that document with us.

While we do appoint people to OMERS boards, they are bound by OMERS confidentiality rules. This means that they are told they are not able to share information with CUPE, and that they have to represent the best interests of the OMERS Sponsors Corporation, not CUPE members.

CUPE members and all members of OMERS deserve transparency, accountability and a legitimate democratic process for making decisions about our pension plan. We will continue to work with other plan sponsors to press OMERS to end the culture of secrecy and the lack of accountability at OMERS.

More information is available at: <https://www.omers.com/contribution-rates-review>

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¹ Available at <https://www.omers.com/contribution-rates-review>