

## FTR Now

# Advanced Planning Required for New Changes to OMERS

**Date:** May 7, 2019

Since [we first reported](#) on the recently adopted changes to the Ontario Municipal Employees Retirement System (OMERS) to:

- Eliminate the 35-year cap on credited service; and
- Expand the normal retirement age 60 opportunity to paramedic employee groups

the OMERS Administration Corporation has published additional details to explain the timing and process for implementing these changes to OMERS, both of which will come into effect on January 1, 2021. In this *FTR Now*, we discuss key planning considerations for OMERS participating employers.

## Elimination of the 35-Year Cap on Credited Service

[As announced by the OMERS Administration Corporation in March](#), commencing January 1, 2021, OMERS members will no longer have credited service in OMERS capped at 35 years. Significantly, however, this change will only apply to those OMERS members who have less than 35 years of credited service prior to that date. The cap will continue to apply to OMERS members who attain 35 years of credited service before January 1, 2021, and these members will not be permitted to accrue any additional OMERS credited service.

Historically, some OMERS participating employers had experienced situations where employees would elect to retire at the point that they hit the 35-year cap on OMERS credited service (having largely maximized the value of their OMERS pension benefits). With the elimination of that cap, there will be a greater opportunity for OMERS pension benefits to further increase in value, and this may mean that some employees continue to work when they would have otherwise have elected to retire.

For those OMERS members who continue to work and have not hit the 35-year cap on credited service cap before January 1, 2021, contributions will continue to be required and credited service will accrue (up to the end of November in the calendar year in which the employee attains the age of 71).<sup>[1]</sup> The continuation of the OMERS contribution obligation will cause payroll costs to increase for OMERS participating employers. In addition, OMERS participating employers may see that their payrolls increase more generally, to the extent that older workers choose to work longer.

While OMERS participating employers should be considering the potential financial impact of this change, they should also be thinking about the effect that it may have on organizational planning and management, particularly to the extent that it may slow renewal of workforces.

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[1] This age 71 limit is subject to the Income Tax Act (Canada) and the administrative practices of the OMERS Administration Corporation.

## NRA 60 – Paramedics

Under OMERS, the normal retirement age for most employees is age 65 (NRA 65). However, a lower normal retirement age of 60 (NRA 60) has been available as an alternative for certain emergency sector employees, specifically police and fire. To compensate for the fact NRA 60 members can commence their pensions 5 years earlier than NRA 65 members, required employee and employer contributions for NRA 60 members are higher than for NRA 65 members (i.e. currently NRA 60 contributions are 9.2%/15.8%, compared to 9.0%/14.6% for NRA 65 members).

As communicated by the OMERS Administration Corporation, the recently approved changes to OMERS will expand the groups eligible for NRA 60 treatment to include paramedics effective January 1, 2021.<sup>[2]</sup> However, this does not mean that NRA 60 is automatically extended to paramedic employees. Rather, an employer must decide (unilaterally or, more likely, through negotiation) to apply NRA 60 to paramedic employees, which decision will only be implemented by the OMERS Administration Corporation if a by-law is filed with it which confirms the NRA 60 treatment. When this happens, paramedics who are already participating in OMERS as NRA 65 members will have their NRA 65 service converted to NRA 60 service. The effective date of the election cannot be earlier than January 1<sup>st</sup> of the year in which the by-law is filed.

With the introduction of NRA 60 for paramedics, it is expected that paramedic employee groups will begin to seek NRA 60 status during current and future rounds of collective bargaining. For municipal employers receiving such proposals, there are a number of considerations that should be assessed before agreeing to NRA 60 status:

- **Class of employees must be identified.** The employer must define the scope of the class of employees to whom the NRA 60 conversion will apply. A class will typically be based on some attribute of the employment relationship (i.e. all full-time, non-full-time, etc.) or can be time-specific (i.e. all employees hired after January 1, 2021 or hired before January 1, 2010, etc.). A class should not be based on protected grounds, such as age.
- **NRA 60 treatment will apply to all employees within class.** Every employee within the defined class will become subject to NRA 60 treatment, and all prior NRA 65 service must be converted. Employees cannot opt-out of having prior service converted.

- **The value of NRA 65 credited service will be reduced on conversion.** When a class of employees is converted to NRA 60, the OMERS Administration Corporation will reduce pre-existing credited service on the member's record, because the member is now entitled to retire with an unreduced pension five years earlier than before. Each affected member will receive a statement setting out the cost to purchase additional service to account for the service adjustment. The purchase of additional service is voluntary and is to be paid by the member – employers are not required to contribute to the cost. The costing provided by the OMERS Administration Corporation will be valid for six months, after which, if the member does not elect to purchase the service adjustment, an updated costing will be required in the future.

It is notable that in explanatory material published on March 26, 2019, the OMERS Administration Corporation has estimated that as many as 40% of paramedic members will not benefit from a NRA 60 conversion and a further 40% may or may not benefit. Stated differently, the OMERS Administration Corporation has estimated that only 20% of paramedic members will fully benefit from conversion to NRA 60. Also significant is that if the member elects to purchase the service adjustment, the member will not receive a refund at a later date, even if a member does not ultimately benefit from the conversion.

Employers who are exploring whether to convert their paramedic employees to NRA 60 should consider the impact that higher contribution rates will have on payroll costs, recognizing that these rates (and the differential between NRA 65 contribution rates) may change from time to time. Also, while employees are responsible for the cost of purchasing any additional credited service that they might wish to purchase, employers should anticipate that union proposals will be made to assist employees with those costs.

Either of an employer or union representing employees can make a request to the OMERS Administration Corporation for an estimate of the credited service adjustments that will be made on conversion from NRA 65 to NRA 60, and the costs for purchasing lost service. The OMERS Administration Corporation Employer Guide relating to the NRA 60 changes indicates that if either party makes a request, a total conversion cost estimate for all affected members in the proposed class (based on one effective date) will be provided to both parties. With a move to NRA 60 status and the potential for employees to retire and leave the workforce sooner, employers should also consider the potential implications that this change might have on the employer's:

- absenteeism rates and sick leave expenses;
- salary and benefits (including any retiree benefits) costs; and
- ability to recruit/replace retiring workers, and consequences for training/training expenses.

Each of these factors should be evaluated before an employer makes a decision regarding NRA 60 status for paramedics.

We continue to work with OMERS participating employers who will be affected by the elimination of the 35-year cap and/or the expansion of NRA 60 to paramedics. If you have questions on one or both of these changes, please contact [Jordan Fremont](#), [Natasha Monkman](#) or any other member of our [Pension, Benefits and Executive Compensation group](#).

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[2] See OMERS Q&A documents, [Q&A NRA 60](#), [NRA 60 Fact Facts](#), [NRA 60 Employer Guide](#), [NRA 60 for Paramedics](#) (Slide Deck).

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