

# OMERS Members Get Green Light To Invest RRSPs In Fund

By: Sheryl Smolkin

**M**embers of the Ontario Municipal Employees Retirement System will not only have a great Defined Benefit pension plan when they retire, they can now further enhance their retirement savings by investing their RRSP savings in the OMERS fund.

With more than \$48 billion in net investment assets at the end of 2009, OMERS represents 400,000 members and 928 government employers including municipal workers, firefighters, police, firefighters, and transit workers.

Since the beginning of this year, all plan members have been permitted to transfer funds from registered retirement vehicles such as RRSPs to an additional voluntary contribution account. Active members can also make additional periodic automatic contributions to an AVC account.

“The idea actually came from our members. They wanted to put their money into OMERS and get the OMERS rate of return,” says Jennifer Brown, OMERS executive vice-president and chief pension officer. “They also want exposure to both public and private markets.”

The OMERS long-term asset mix target is 53 per cent public investments and 47 per cent private investments. In 2009, the fund rate of return was 10.6 per cent with rates of return over five years at 6.6 per cent, 10 years at 5.2 per cent, and 20 years at 8.1 per cent which beat their established benchmarks.

Fees OMERS members will pay on their AVC accounts are a pro-rated share of investment management expenses (0.4 to 0.6 per cent in the last five years) and in 2011, a flat \$23 administration fee per member. “This is all on a cost recovery basis. There is no profit built into the fee structure,” says Brown.

Ian Markham, OMERS plan actuary and Towers Watson’s Canadian retirement innovation leader, thinks there really isn’t a downside to member participation in the AVC program. Nevertheless, he says members need to do their homework and make sure the OMERS fund is the best investment vehicle for them.

“The OMERS rate of return can be negative in some years, so it’s not for extremely risk adverse members who want to invest their RRSP contributions in GICs. But if their investment goal is some kind of balanced fund – especially with access to private markets – at a pretty low expense ratio, then the OMERS fund may well be attractive to them.”

Ottawa firefighter and executive member of OPFFA Local 162 Erik Leicht plans to move his RRSP portfolio into an OMERS AVC account. “I’ve chaired the Ontario Professional Firefighter’s Association Pension Committee for years and I’ve got a lot of trust in the way the plan is managed.” He is not too concerned that in 2008 the OMERS rate of return was -15.3 per cent. “When I look at my own RRSP portfolio, I probably did worse than that. OMERS returns were not outside the realm of how the markets were in that period.”

Another consideration for members considering this new investment opportunity is that OMERS AVC withdrawal options are more restrictive than from those permitted by RRSPs.

“Members cannot take money from their AVC account for special withdrawal programs such as the Homebuyer’s Plan or the Life Long Learner’s Plan. In addition, active members are generally limited to maximum annual withdrawals in the window from March 1 to April 30 of 20 per cent of the previous year end balance (minimum of \$500),” Brown explains.

AVC funds must be fully withdrawn if an individual terminates membership in the DB provision of the OMERS plan and transfers out the commuted value of the pension, or by October of the year the member turns 71.

Because pension consultant Marilyn Lurz was an OMERS employee for three years in the late 90s and left her accrued pension in the OMERS fund, she is entitled to transfer her RRSP savings into an OMERS AVC.

While she thinks it's a great deal, she would like the opportunity to leave her money in the OMERS Fund after age 71. "If I'm going to retire in my mid- to late-60s, I've got 10 years to go in that fund and then I have to pull it out again. But if I can leave it there and they allow me to take RRIF payments out, it's way more attractive to me."

Brown says this issue came up during employee presentations, but current regulations under the Ontario Pension Benefits Act do not allow OMERS to offer a RRIF option. "I've heard there may be some flexibility in new regulations, in which case we will consider if a RRIF is in the best interests of our plan sponsors and plan members."

It's still early days for the new OMERS AVC program, but Brown is very pleased with the response to employee presentations and online materials.

The pool of people benefitting from OMERS investment expertise is likely to be further expanded in future as a result of 2009 Ontario legislation allowing OMERS and the Ontario Teachers' Pension Plan to provide third-party investment management services to other pension plans.

"Efforts to date have been focused on developing the offerings, but preliminary feedback to date from other pension plans has been positive," says Wendy Forsythe, president of OMERS Investment Management. ■

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