UNDERTAKING J9.10

Undertaking

To provide best estimates for items 2a to 8 of the annual dollar value of each, in terms of reducing the $1,294,000,000 in cost.

Response

This undertaking arose as part of the discussion of p. 18 of JT2.12 Attachment 1 ("Towers Briefing"), which is a slide that shows a mapping of relative benefits and risks/costs associated with each of the identified pension redesign interventions. This mapping was done on the basis of the relative impact of each individual intervention on OPG's obligation for future employee service.

Below are OPG's best available estimates of company-wide savings associated with each of the initiatives 2A to 8 on the above slide. This information is based on the most recently available calculations, which in a number of instances is subsequent to the Towers Briefing and the product of ongoing redesign of the pension applicable to the management group staff. Where the most recent available information is on a cash basis, OPG provides the cash amounts. These cash savings would be generally representative of the magnitude of the corresponding accounting impacts, as the initiatives are assumed to be adopted prospectively (i.e., in many cases, they would not be expected to generate changes to the existing obligations). The estimated savings are not additive as the various plan changes are likely to be interrelated, resulting in a total impact that is different from the sum of the individual impacts.

#	Initiative	Overview	OPG wide Estimated Annual Savings
2	**Employee Contributions:**		
2A	• Negotiate dynamic employee contributions	Employee contributions fluctuate with plan funding. Savings shown for each 1% increase in contribution percentage for all employees.	$11M (Note 1)
2B	• Negotiate 1:1 contributions	50/50 contributions for all employees. Savings shown when fully implemented.	$67.5M (Note 4)
3	**High 5 vs. High 3**	Change final average earnings definition to highest 5 year average (currently highest 3)	$9.6M (Note 3)
4	**Rule of 90 and age 55**	Savings when all staff are moved to Rule of 90	$18.1M (Note 2, 5)
5	**Reduced Features:**		
5A	1. Indexing	Reduce indexation from 100% of the increase in CPI to 75%. Impacts benefits earned for service on and after the effective date.	$17.5M (Note 3)
5B	2. Spousal plan	Change spousal death benefit to 60% survivor pension (currently 66 2/3%)	$3M (Note 1)
5C	3. Bridge factor	Change formula from 0.729% to 0.5% times earnings up to the Year's Maximum Pensionable Earnings, times years of credited service	$2.3M (Note 3)
6	**Flexible pension plan**	Defined benefit plan where OPG pays for basic pension and employee contributions separately pay for, and bear the risk of, certain features such as indexing, survivor pension, final average, etc.	$0M (Note 1)
7	**Delay eligibility to join**	Delay plan membership for 24 months, or if over age 30 delay for 6 months	<$1M (Note 1)

8	**Remove commuted value option**	Eliminate commuted value option for retiring members, subject to the requirements of the Pension Benefits Act	Intended to reduce risk, not cost

<u>Notes:</u>

1. Most recent savings estimates are on an accounting basis and were developed by Towers as part of the work in 2011. Amounts shown were intended to indicate the order of magnitude of design changes and to assist OPG management in assessing the relative ranking of initiatives rather than the absolute savings. A full valuation/forecast was not performed. Costs were based on the January 1, 2008 actuarial valuation data and 2010 employee demographics. At the time, Towers recommended that before any changes were implemented, it would be prudent for OPG's actuary to calculate the financial impact.

2. These cash savings were developed in 2013 as input to OPG's work leading to the pension changes being implemented for the Management Group. These amounts are based on recent valuation assumptions and employee information. The amount shown represents all of OPG employees moving to the Rule of 90.

3. These cash savings were developed as part of ongoing work to be used, ultimately, as input to OPG's preparation for upcoming negotiations with the PWU and subsequently the Society of Energy Professionals. These amounts are based on the most recent valuation assumptions and current employee information.

4. This estimate was developed in response to interrogatory L-6.8-1 Staff-121 in this proceeding. As indicated in response to that interrogatory, the annual impact on regulated operations is a savings of approximately $60M. The cash and current service accounting savings are expected to be the same.

5. The calculation for this item incorporated only the Rule of 90 and did not include the added constraint of age 55. However, very few people would get to the Rule of 90 before age 55, therefore the financial difference between the two would be minimal.

For represented employees which make up approximately 90% of OPG's workforce, OPG does not agree that the foregoing represents achievable reductions in pension costs during the test period. Pension costs associated with represented employees are committed costs. OPG has, over the years, attempted to make changes to the provisions of its pension plan applicable to represented employees. Other than the modest changes which were agreed to and discussed in the evidence provided in this proceeding, OPG's unions have resisted changes of the type described above. As a result, it is OPG's view that significant reductions in pension costs can only result from:

- An increase in actual discount rates
- Higher mortality rates
- Significant legislative amendments