



**Ontario Pension Board  
Business Plan  
2020-2022**



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## OPB Overview

Ontario Pension Board (OPB) is the administrator of the Public Service Pension Plan (the Plan), a defined benefit pension plan, with 90,000 members - current, retired and deferred - and oversees the investment of \$28.1 billion of net assets (the Fund) that fund the benefits under the Plan.

Since 2017, the assets of the Plan have been managed by the Investment Management Corporation of Ontario (IMCO). OPB maintains an oversight role on the Plan's assets.

This Business Plan speaks to the three-year period from January 1, 2020 to December 31, 2022; however, the primary focus is on 2020.

## Mandate

OPB was created in 1990, by enactment of the *Public Service Pension Act*, to administer both the Plan and the Fund.

OPB is governed by its Board of Directors. The Chair of OPB's Board is accountable to the President of the Treasury Board for OPB's performance in fulfilling its mandate.

As part of its 2020 mandate from the President of the Treasury Board, OPB has aligned its strategic approach and initiatives to support the following new and continuing provincial priorities.

- Effective oversight of expense management and controls to align with the government's fiscal objectives and minimize administrative costs for our stakeholders;
- Effective oversight of our strategic, operational and financial risks to help ensure our business objectives are met;
- Delivery of superior client service to help members plan for retirement;
- Ongoing oversight of OPB's assets, which are managed by IMCO;
- Maintaining an effective system of internal controls and compliance to promote transparency and accountability; and
- Supporting the implementation of the Ontario Provincial Judges Pension Plan restructuring, as well as other government initiatives.

Subject to the provisions of the Plan, OPB may administer other pension plans or funds, or insured benefits plans. The administration of several other plans/services on behalf of the Government of Ontario are all on a fee-for-service agreement and are structured on a cost recovery basis, not as a profit-generating activity.

## OPB's Vision 2025 and Strategic Plan

In 2019, OPB adopted a new vision and strategic plan for the organization: Vision 2025. Our vision statement is:

“OPB is a premier pension delivery organization and a trusted advisor to all our stakeholders, whose effectiveness delivers sustainability for the PSPP.”

Vision 2025 builds upon our previous Advise and Protect vision and strategies. Vision 2025 is very well aligned with OPB's mandate as received by the President of the Treasury Board set out above.

In order to realize Vision 2025, OPB has organized its strategic focus on Sustainability and Service Excellence. The focus on Sustainability is comprised of three main strategies:

- Investments;
- Funding and Design; and
- Cost-Efficiency.

Similarly, there are three main strategies within the focus of Service Excellence:

- Digital and Online Services;
- Advanced Business Processes and Systems; and
- Advisory and Education Services.

We have also identified three organizational foundations that are essential underpinnings to our ability to achieve our strategies and Vision 2025. The foundations are:

- State-of-the-Art Governance;
- Outstanding Stakeholder Relations; and
- High Performing People.

Within each of the Strategies and Foundations, we have identified initiatives that we will undertake in the coming years. The 2020 and subsequent business plans will be guided by these strategies and planned initiatives. We have also adopted a set of metrics for each Strategy and Foundation to guide and measure our progress.

As part of Vision 2025, we facilitated feedback sessions through organization-wide town halls and employee engagement surveys to determine how our culture needed to adapt in order to fulfill our new vision. This feedback was combined with best-practice research and executive leadership discussions to help focus how our values could be refreshed and better emphasize the strategic mindset of the organization, both of which are critical to achieving our business

priorities now and in the future. OPB's values work in combination with the Vision 2025 strategies to create a high performing organization.

OPB's values are:

- Client and stakeholder commitment: we strive for exceptional client experiences;
- Inclusion and diversity: we are respectful and collaborate, leveraging everyone's unique talents and experiences;
- Innovation and continuous learning: we are open to exploring new ideas and approaches as we continuously improve, learn, share and grow;
- Trust and transparency: we act with integrity and communicate honestly to create open, transparent and trust-based interactions; and
- Accountability: we protect the pension promise through advocacy and by delivering effective and efficient programs and services that drive Plan sustainability.

## **Expenditure Management and Fiscal Restraint**

It is important to note that OPB's expenses are paid from the Plan's assets not from the Consolidated Revenue Fund and therefore are not reported as part of Government expenses. However, as an agency of the Province of Ontario, OPB respects the message of expense restraint that has been established by the Government. We believe that OPB's key strategies such as pooled investment management through the Investment Management Corporation of Ontario (IMCO), the consolidation of small broader public sector pension plans into the PSPP as well as the optimization and increased automation of our business processes and increased online service delivery are very well aligned with the Government's focus on reducing duplication and improving efficiency and performance and increasing the use of technology in service delivery ("Digital First"). As noted in the Government's *Managing Transformation* report, an upfront investment is required to pursue these initiatives. Over the past year, OPB has had ongoing discussions with Treasury Board Secretariat to ensure that our planned technology investments are aligned with the strategic direction of the Government and will generate the efficiency and performance enhancements to justify the expenditure. That said, given the number of new, pressing government initiatives that have been introduced, the pace of our technology transformation will move more slowly to ensure we also continue to be able to effectively implement the new government initiatives on time while also managing increasing service demands, client service expectations and IT infrastructure improvements. Our focus in 2020 will be on updating the elements of our pension administration technology systems which are now nearing end of life, including our member and employer portals. This work is necessary to ensure we effectively manage our systems and cyber risks. As a key efficiency metric, OPB's expense ratio (expense per dollar of assets under administration, which is expected to be about 60 bps in 2020) continues to be among the lowest in the industry, including comparisons to peers who have significant advantages of scale.

During 2019, we have engaged our internal auditors to complete an independent review of all operating expenses to ascertain whether and where they might be reduced.

## **Status of the Plan**

Protecting the promise for our members and ensuring the Plan is sustainable over the long-term is our top priority. As of December 31, 2018, the Plan had a funded status of approximately 93%.

OPB will be undertaking a Funding Risk Study, to be completed in 2020. The purpose of the study is to:

1. model a range of funding scenarios to develop a deeper understanding of the funding risks facing the PSPP;
2. develop potential mitigation actions that could be taken in response to significant funding shortfall scenarios (a funding response plan);
3. develop proactive sustainability (risk mitigation) measures that might be taken to reduce funding shortfall risk; and
4. develop measures that could be taken to produce near-term plan sponsor pension expense reduction.

We take a disciplined, long-term approach to managing the financial health of the Plan. As part of that approach, we regularly conduct in-depth reviews of the cost of the pensions promised by the Plan and the adequacy of the contributions to fund those pensions. Over the past few years those studies have shown that the cost of pensions is rising due to our active and retired members living longer than expected and due to the prolonged low-interest-rate environment. When we looked at how to fund this increased cost, we had to look at the returns we expect to earn in the future.

Our expectation is that investment returns over the next five to 10 years are going to be lower than in the past 10 years. As a result, and consistent with the shared cost model of the PSPP, we recommended that the Plan Sponsor increase member and employer contribution rates by 1%. Phase 2 of this increase took effect in April 2019.

As part of the reviews completed in 2017 and 2018, we lowered our discount rate and strengthened our funding longevity assumptions to better align the PSPP with our expectations for the future. We believe these were prudent steps that will help us protect the long-term health of the Plan. The Funding Risk Study previously mentioned will also assist us with understanding risks to the financial stability of the Plan.

## **Environmental Scan**

The environment for administrators of large public sector defined benefit pension plans continues to be complex and challenging. Environmental factors present opportunities, risks



and impacts for the Plan. Whether and how effectively OPB responds to these factors can significantly impact Plan stakeholders. Accordingly, properly identifying and assessing these factors is necessary to successfully fulfill our mission. There are many aspects of the current environment that are placing significant and unavoidable pressure on OPB's operating expenses and resources. Despite this, OPB remains committed to the Government's expectation of expense management and we believe that the budget outlined in this Business Plan is respectful of that expectation.

This section highlights some of the environmental factors we believe could impact OPB's business plan and strategies over the next few years.

**Technology Changes and Challenges:** As discussed in our last two Business Plans, our existing pension administration systems are nearing the end of their life cycle. Since they were put in place in the early 1990s, the Plan's membership has grown, and we have introduced digital tools and services to improve our productivity and modernize our service delivery to better serve our members.

We have also implemented several initiatives to improve our cyber security maturity. Ensuring our technology remains current is critical to ensuring our clients' personal information remains secure. OPB continues to be vigilant and responsive to constantly evolving cyber security threats. These threats are becoming increasingly sophisticated, and constant vigilance is essential to effectively mitigate this risk. We plan to continue to address this risk over the next several years by further modernizing our pension administration systems. We will also use this opportunity to look at how we can make our business processes and systems more digitally-efficient and effective for our clients and to continue to improve our productivity.

**Investment Environment/Outlook:** Current economic and geopolitical factors will continue to present a challenging and uncertain investment outlook globally characterized by the following key themes:

- Economic growth has weakened of late with renewed pressure by major central banks to ease monetary conditions to avoid further weakness or recession in many developed market economies.
- Prolonged low government bond rates expected to continue in the future.
- Significant disruption in global trade relationships, most notably between the US and China, is causing uncertainty about the flow of goods and services in the future. This uncertainty is expected to continue to result in volatility in the capital markets.
- Economic growth in the United States remains fairly robust, driven by the tailwind of late cycle fiscal stimulus in the form of tax relief.
- With the current Chinese administration's power base now cemented, the relatively new political elite in China is working its "Made in China 2025" agenda which includes:

- the move towards a knowledge-based economy that is more dependent upon technology and consumption versus fixed-asset investment and acting as the world's factory to export lower value products; and
  - in order to reduce pollution and reduce financial risk the old model of credit intensive fixed-asset investment and goods for export has been targeted.
- The global economy remains vulnerable to a slowdown and it is expected that economic growth will moderate toward a more sustainable long-term trend in most major economies.
  - Over the long-term, OPB's Investment Portfolio posted a strong 10-year annual compounded return of 8.0%. Given current asset valuations, the next decade is unlikely to deliver the same level of return from traditional public equities and fixed income securities and private markets investments (real estate, infrastructure and private equity) experienced over the past 10 years.
  - Rich starting valuations and low yields in key asset classes are the major factors underlying the subdued outlook; historically, high asset prices relative to fundamentals (i.e. low asset class yields) have reliably predicted lower long-term returns.
  - Geopolitics continues to be an important and relevant factor impacting markets and creating future uncertainty. Trade wars, Eurozone fragmentation, Iran and the possible return of provocative actions by the North Korean regime continue to be a concern, and the implications of Brexit still remain unknown.

Although OPB has performed well since introducing its infrastructure and private equity from scratch in 2012, IMCO is better positioned and resourced to access a broader range of assets and partnership opportunities in these asset classes, as well as real estate, than OPB was and to negotiate better deal terms due to its scale.

Some of the IMCO strategies to address the expected investment challenges facing OPB's Investment Portfolio now and in the future include the following:

- Seek to tilt its investment strategies toward areas where opportunities for growth and returns are more prominent, at an acceptable level of risk;
- Pursue opportunities to reduce costs, for example through the utilization of passive investing, lower cost "beta" strategies and increased allocations to direct and co-investment acquisition of private assets;
- Position the public equities portfolio to continue to preserve capital in the event of market uncertainty with a bias towards higher quality companies with significant cash flow generation capabilities;
- More active management of the fixed income portfolio over time; and

- Within the real estate portfolio, reduce the dominance of retail and office sectors in favour of more exposure to industrial and residential properties.

**Demographics:** There are several demographic pressures facing the Plan. The most important of these is the fact that people are living longer and therefore collecting their pension longer. This increases the costs of pensions and creates funding pressures. In the PSPP's case, this has been largely addressed by using some of our investment experience gain in 2017 to further strengthen our mortality assumptions used to value the liabilities of the Plan. To reflect the low interest rates and yields on many assets, we also lowered the discount rate we use to calculate the present value of the liabilities in the Plan. We believe that these are prudent steps to manage the long-term health of the Plan. Even with this in mind, OPB will continue to monitor our demographic and other trends (such as change initiatives within the Ontario Public Service and broader public sector which could reduce the Plan's active membership) to determine if plan design and other funding changes are required in response to these trends.

**Ensuring Compliance with Expanding Mandatory Governance, Risk and Compliance standards:** There are a number of Government directives and legislative requirements with which OPB must comply, such as Ontario's Open Data Directive, anti-spam legislation, and new procurement rules. We are also proactively engaged in ensuring responsive policies and practices are in place to meet the needs of clients and stakeholders through accessibility for persons with disabilities legislation (AODA). These compliance efforts occur within an environment of resource pressures and cost constraints as we work to achieve our strategic initiatives. Another example is the introduction of Administrative Monetary Penalties (AMPs) under the Pension Benefits Act, which require increased risk management standards and costs to ensure continued compliance with all legislative and regulatory requirements.

**Province of Ontario Priorities:** Controlling human resource costs, including pension expense, in the public sector is seen as one of the key paths to fiscal health in Ontario. Measures to address the Province's budget deficit and debt level could impact the Plan and OPB in various ways. These provincial priorities include:

- changes to retiree insured benefits;
- changes to the long-term income protection program and its interplay with the Plan;
- pension consolidation;
- continuing to move our services available online to members 'Digital First'; and
- the Transition Exit Initiative.

Each of these initiatives have created significant human resource demands on OPB. Our Asset Pooling arrangement through IMCO is another Government policy initiative to increase the efficiency and effectiveness of the investment of public sector assets.

We have also seen an increase in initiatives flowing out of the government's collective bargaining process, these include:

- the introduction of a new early retirement factor for OPP Civilians; and
- a restructuring of the Provincial Judges Pension Plan, which OPB will now be administering.

Implementing these initiatives have substantially added to OPB's workload.

**Rising Service Expectations:** Our members, retired members, employers and other stakeholders expect faster and more sophisticated service including the use of online self-service tools. Our clients want more personalized advisory services to help them navigate key pension decisions during their membership, and increasingly they expect to be able to exchange information, complete transactions and receive their communications online. To ensure we continue to keep our clients' information secure while providing them with the online services and tools they expect, we need to modernize our technology.

**Increasing Service Demands:** In the last few years, OPB has experienced a dramatic increase in client service demands, many attributable to the environmental factors noted previously. For example, current annualized levels of transactions compared to 2015 reveal a:

- 45% increase in member terminations;
- 8% increase in client service calls;
- 34% increase in pension transfers; and
- 300% increase in the processing of member divestments.

We are also in the process of implementing two plan merger transactions (TVOntario and Ontario Northland Transportation Commission) with 2,800 affected members and retirees. These pension plan mergers align with the Government's drive for removal of redundancies and the creation of efficiencies across the broader public sector (further details on page 17).

OPB has been able to manage the increase in day-to-day service demand by introducing process improvements over the last several years. With the additional high-priority initiatives the government has introduced this past year, we have increased our human resource complement by ten positions to ensure our ability to meet our commitments. These additional resources, on the pensions side of the business, will allow us to advance key initiatives and priorities, while supporting the high level of client and stakeholder service excellence that OPB has become known for.

## Strategic Direction

### Vision 2025

Fundamentally, OPB has two critical objectives: first, to manage the financial health of the Plan and second to provide pension administration services to our members, employers and other stakeholders. This is reflected in our two core strategies in Vision 2025: Sustainability and Service Excellence. As part of Vision 2025, OPB has realigned its strategic approach to short-

term and long-term goals for sustainability and service excellence. This provides us with an opportunity to better define our goals around performance and long-term success while being mindful of the important work we do for our existing clients and stakeholders and ensuring that the quality of service remains paramount to our day-to-day operations and mission.

Together, three sustainability strategies (Investments, Funding and Design, and Cost-Efficiency) and three service excellence strategies (Advisory and Education Services, Digital and Online Services, and Advanced Business Processes and Systems) form the following commitment from management on behalf of OPB:

- To be a trusted advisor to Plan stakeholders and a credible thought leader on public policy, to support sound decision-making that promotes the long-term sustainability of the Plan and pension coverage and adequacy for all Canadians.
- To achieve excellence in the management of all Plan funding variables (investment returns, contribution levels and benefit structure) so that (1) accrued benefits are delivered as promised; (2) the Plan remains affordable over the long term; (3) the benefit package in the Plan continues to be structured so as to build lifetime retirement income adequacy for long serving members; and (4) fairness in the Plan costs and benefits is achieved across generations of members.
- To administer the Plan and serve our stakeholders so that every stakeholder receives appropriate value from their participation in the Plan.

OPB is confident that its revised Strategies, as well as the initiatives outlined in this Business Plan, are appropriate to manage the Plan, to support the Government in its efforts to improve the Province's finances and to manage the impacts and seize the opportunities presented by the current environment.

## **Sustainability Strategies**

### **Investments**

The day-to-day investment management of OPB's assets was transitioned to IMCO in July 2017. IMCO continues to implement OPB's strategy of expanding its in-house investment management expertise in certain asset classes to generate incremental risk-adjusted returns in a cost-effective manner as it becomes a best-in-class professional investment manager that will offer a strong value proposition to all clients.

The Plan's pension obligations drive OPB's long-term investment strategy as implemented by IMCO. The annual employee and employer pension contributions to the Plan do not cover the cash flow needed for the annual retirement benefit payouts, so the difference must be covered by income from investments. Since 1990, approximately 71% of pension payments have come from investment income, so strong investment returns are critical to the long-term health of the Plan, including reducing the current funding shortfall in the Plan over time.

In 2020, OPB will complete an Asset/Liability (A/L) Study, which it typically conducts every three years. The purpose of the A/L Study is to determine whether the risk/return profile of OPB's investments is optimal and whether the Plan's assets are a good match with its liabilities in the current environment and expectations for the future and, if not, to determine what adjustments need to be made. The A/L Study is fundamental to formulation of OPB's Strategic Asset Allocation (SAA):

- The SAA identifies percentage targets for individual asset classes that make up OPB's Investment Portfolio (i.e. the Portfolio's Asset Mix).
- The SAA drives investment performance and is OPB's most important investment decision. The SAA is the Fund-level investment strategy that we believe will earn the investment returns required to meet or exceed the long-term rate of return used to value the Plan's pension obligations at an acceptable level of risk.

OPB continues to set the Plan's SAA which IMCO then executes in accordance with established investment policies and individual asset class strategies. IMCO is developing several new investment products and strategies for its clients, including OPB, for implementation during 2020 pursuant to its three-to-five-year Business Plan. IMCO reports investment returns and investment risks to OPB on a regular basis.

OPB monitors IMCO's investment performance and the performance of its duties, responsibilities and obligations under the contractual agreements between OPB and IMCO (e.g., Investment Management Agreement, Service Level Agreement).

A major tenet of IMCO's multi-year Business Plan is "Costs Matter." Over time, lower relative investment costs are expected to be achieved through IMCO's scale and an optimum mix of external and internal investment management. Internal asset management is less expensive. IMCO is not-for-profit, so OPB is charged a fee on a cost-recovery basis.

To put that in context: increasing average net investment returns (through reduced costs) by  $\frac{1}{4}$  of 1% per year above the discount rate used to value the Plan's pension liabilities would generate additional income for the Fund of \$2.3 billion at the end of 15 years. On its own, this could cover the current going concern funding shortfall in the Plan.

IMCO's costs of managing OPB's assets are charged to OPB as investment management fees and are not treated as part of OPB's operating expenses.

OPB has included as a performance metric in assessing its consolidated (investments and pension administration) expenses for both IMCO and OPB, a long-term expense ratio of 65 bps (basis points) or lower. We expect that the 2020 consolidated expense ratio will be approximately 60 bps.

## **Funding and Design**

The financial health and sustainability of the Plan is a function of how well we manage three variables:

- Adequacy of contributions to the Plan;
- Long-term investment rate of return on the Fund; and
- Cost of the benefits promised by the Plan.

We continually analyze these variables through a series of actuarial reviews:

- Annual Plan valuations;
- Asset/liability studies that are conducted at least every three years and are used to set our strategic asset allocation for our investments;
- Experience studies to determine trends in the cost of benefits and assess whether we need to change the assumptions we use to value the Plan;
- Long-term funding studies to determine adequacy of contribution rates; and
- Funding risk studies to assess funding risks under a wide variety of scenarios and develop funding responses to address funding challenges that may emerge over time.

It is also critical to continue advocating for the sustainability of the Plan and defined benefit (DB) model. We believe DB plans are the most effective approach in achieving retirement income while still being affordable to both employers and employees. We also believe as an attractive part of a total compensation package, DB plans can help public sector employers attract and retain key talent, making them a valuable tool in helping implement human resource strategies. We undertake advocacy efforts through:

- Direct OPB submissions to government, regulators and employee groups;
- Partnerships with our peer plans on matters of mutual concern; and
- Collaboration with industry organizations such as the Association of Canadian Pension Management (ACPM) and the Ontario Bar Association (OBA).

## **Cost-Efficiency**

To help us manage costs across all aspects of our business, we have chosen initiatives that will, over time, help us improve our cost efficiency and service levels and have established metrics that will help us track our progress. These metrics are based on what we know today, but are fluid so we can make necessary adjustments as information or the environment in which we operate changes.

As with asset pooling, merging smaller public sector pension plans into the PSPP (we refer to this as pension consolidation) is intended to improve our economies of scale, which helps to reduce our per-member cost and also aligns with government direction (e.g., consolidation of the pension plans of smaller government agencies whose principal focus is not administering a pension plan). Even if consolidation does not increase our active membership numbers significantly, it helps offset other potential membership reductions such as ones which occurred through OLG's modernization and the Transition Exit Initiative over the past several years, to help us maintain our existing ratio of active-to-retired members. The ratio of active to retired members is very important. We need active contributors to spread the risk and cost of funding shortfalls and to be able to take investment risks to enhance our returns over time.

Two other important initiatives will also drive cost-efficiency. Many of our business processes are outdated and need to be reviewed and updated to be more effective and more efficient. This is of significant importance for our digital strategy and pension administration system modernization initiative – we do not want to digitize existing inefficiencies. Through our Pension Modernization program, we also identified the need to upgrade our web platform to support the portals and our broader digital strategy, involving the business from an improvement and innovation perspective and IT from a risk mitigation perspective.

#### **Alignment with the Government's Fiscal Objectives**

OPB respects the Government of Ontario's objective to restrain expenses in the Ontario Public Service and broader public sector. In preparing this Business Plan and Budget, Management reviewed all expenditure requests to ensure that only those that were deemed necessary were included in the Business Plan. Management defines initiatives as necessary if they meet the following criteria:

- Required to comply with legislation or Government directives, including tendering practices;
- Required to align OPB's activities with current Government policies (e.g., Plan changes);
- Required to manage key risks (e.g., cyber security threats or end-of-life IT systems);
- Expected to generate a benefit that more than justifies the incremental expense;
- Required to meet service expectations;
- Required to prudently manage the funding of the PSPP; or
- Implementation of any recommendations coming out of our 2019 line-by-line expense review.

Pension consolidation is also aligned with the government's stated objective of operating more cost effectively. Joining a larger plan helps these broader public sector employers provide pensions that are more viable, secure, and allows them to focus solely on their core business and not on pension administration. This not only supports the government's objective, it also grows our client base and enhances the sustainability of the PSPP.



In late 2018, we welcomed the first two public sector plans under this initiative with approximately 400 contributing members from TV Ontario (TVO) and approximately 800 contributing members from Ontario Northland Transportation Commission (ONTC). We expect to move forward with additional plan mergers in the next couple of years. Properly implementing plan mergers requires significant resources from Client Services, Information Technology (IT), Investments, Stakeholder Relations and Policy teams. There are a number of regulatory requirements that must be satisfied. Data must be transferred from the incoming employers and it must be reviewed and in many cases “scrubbed” more than once to ensure proper reconciliation. Systems must be modified to properly track the new members and these systems must be tested before going into production. The new members must also receive communications materials and statements that explain their new benefits in compliance with the *Pensions Benefit Act*. While the consolidation initiative will provide the province with cost efficiencies in the long-term, properly implementing it requires upfront resource investment (dollar and human) – all while we continue to conduct ongoing business.

## Service Excellence Strategies

OPB’s objective is to deliver excellent service at a reasonable cost. We believe that excellent pension service has five key elements:

- **Decision Support** - providing personalized information and counsel in a manner that is understandable and that enables clients to make good decisions about their pensions;
- **Digital Access to Information** - in line with modern service experience our clients expect;
- **Anytime/Anywhere Self Service** - for low-complexity transactions;
- **Effective and Timely Service Delivery** - for more complex transactions where the assistance of our client service staff is necessary; and
- **Privacy and Cyber Security** - in an increasingly digital and online world, an imperative of service excellence is protecting our clients’ privacy and the security of this personal information.

Our three Service Excellence strategies are designed to deliver on all those elements.

- **Advisory and Education Services** - is designed to deliver outstanding decision support;
- **Digital and Online Services** - is intended to deliver Anywhere/Anytime Access to Information and Self Service - this will also contribute to cost-savings in our operations and will include appropriate cyber security and privacy protections; and
- **Advanced Business Processes and Systems** - will provide us with the tools, systems and processes to deliver secure, effective, timely and cost-efficient service to our clients.

The three strategies are discussed in greater detail below.

## **Advisory and Education Services**

### **Advisory Services**

OPB's decision support or advisory service continues to be our service excellence differentiator. Our team of Advisors, pension experts who are also Certified Financial Planners, are able to help our clients navigate complex pension decisions in the context of their overall financial and life circumstances. We launched our Advisory Services offering in 2015 and have continued to enhance it over time. Demand for these services grew 42% in 2018 and has grown an additional 5% in 2019. In 2018, we began to specifically measure client satisfaction with our Advisory Services. The results are very positive with the vast majority of members:

- Three quarters of our members rate their satisfaction with their OPB Financial Advisor a 9 or 10 out of 10
- These members also agree that their OPB Advisor:
  - was responsive to their needs and questions (95%)
  - provided the pension advice they needed (93%)
  - provided objective guidance to protect their best interests (87%).

Over the next few years, we are planning to further enhance our Advisory Services offering by:

- Using behavioural research to enhance our understanding of members and stakeholders so we can develop more tailored services and communications to meet their retirement planning needs;
- Developing more targeted communications so we can provide members with timely, relevant information;
- Proactively reaching out to members at critical stages in their career and PSPP membership to ensure they are aware of decisions they may need to make about their pensions and ensuring they have the information to make sound decisions – this initiative will be aided by modern data analysis, approaches, and tools;
- Developing more holistic planning tools to assist clients with decision making; and
- Adding capability to better understand workforce changes that will impact members and employers and putting tools in place that will help them navigate these changes.

### **Education Services**

OPB has also developed and continued to improve client and stakeholder education sessions. The purpose of these sessions is to educate our members and stakeholders about the Plan and its benefits as well as the challenges facing the Plan. Initially, the sessions provided an overview of the Plan. In recent years, we have introduced tailored financial and retirement planning sessions that are designed to get members engaged in planning for their retirement earlier. For example, we have introduced workshops tailored to members who are just starting out and members approaching mid-career. The demand for these tailored presentations continues to

increase and feedback on the sessions is very positive as a higher percentage of our members rank these presentations as excellent or very good.

Over the next few years, we are planning to further enhance our client and stakeholder education by:

- Integrating more financial planning material in our presentations to equip our members to make sound financial decisions;
- Introducing more financial planning content and presentations to help us engage younger members by speaking to the issues that matter to them now (e.g., parental leave impacts, managing debt, etc.) each within the context and for the purpose of assisting them in making excellent decisions about their pension; and
- Enhancing our online learning experience through recorded webinars and short videos – this expands the number of members we can access and at a time that’s convenient for them.

## **Digital and Online Services**

In the financial services industry today, clients expect to be able to access information about their accounts and to execute simple transactions online anywhere and anytime. OPB has an array of online self-service options for clients and also has an employer portal through which employers can do business with OPB. However, both the infrastructure and the applications for the online services and employer portal are older, first-generation approaches and technologies. Newer technology would enable us to make the online services more user-friendly, efficient and effective. In particular, current technology opens up future opportunities for additional online self-service transactions. Enhancing our online service applications will increase the usage level of this service channel, making OPB’s operations more cost-effective and freeing up resources to meet the demand for our decision support services. This will help to improve client and stakeholder outreach, and support our progressive digital strategy, while improving data security. This makes the replacement of those portals an imperative as well as a strategic opportunity.

Over the next few years, we are planning to further enhance our Digital and Online Services by:

- Increasing the number of transaction types members and retired members can self-serve online;
- Allowing members to select their channel preference (e.g., opt into digital only delivery)
- Enhancing the capabilities of our retirement planning tool;
- Introducing a real-time Annual Pension Statement that will allow members to get an in-the-moment view of their accrued pension entitlement; and

- Highlighting key opportunities (e.g., buybacks) and approaching deadlines to reduce the risk of members missing out on valuable opportunities.

## **Advanced Business Processes and Systems**

OPB's primary pension administration systems (the systems used by our client service staff to process more complex transactions such as buybacks and transfers) are now nearing end-of-life and must be updated or replaced. The technologies for workflow and document management have advanced significantly in recent years and have the potential to automate some components of our manual processing. This will enhance our efficiency and improve our service response times for clients. As it stands today, we have multiple calculation engines each of which are maintained separately as well as kept current with assumptions and variables. There are single calculation engines available that could handle all our calculation needs. Newer technologies will allow us to re-engineer our business processes, reduce the risk of systems failure, improve cyber security, expand our digital client self-service, and improve our operational effectiveness, enabling us to serve our clients better and faster.

Over the next few years, we will replace our pension administration systems and reengineer many of our business processes.

### **Pension Modernization**

Our Pension Modernization Program is a business transformation program, enabled by technology, that will advance client and stakeholder experiences as well as generate business efficiencies. This multi-year initiative is designed to enhance our digital client self-service and mitigate the future risk posed by our legacy systems as they near end-of-life and will also allow us to further improve our operational effectiveness while fully supporting our Advisory Services model and the tools our clients require to make sound decisions about their pension. The work to date has mapped our current state business processes and the systems in need of replacement.

The first replacement project is the re-platforming (upgrading) of the member and employer portals as these will no longer be supported by the software vendor in 2021. As the digital "front door" of OPB, these must be updated to reduce the risk of cyber breaches and the possibility of Portal instability or failure. Updating will also enhance AODA accessibility. We expect to issue a tender to select the vendor who OPB will work with to design and build the replacement portal solution(s). We anticipate issuing an RFP in late 2019 with business requirements, and design taking place in 2020. The build and implementation will be completed in 2021 to meet the risk mitigation timeline.

In 2019, we developed a multi-year modernization Roadmap that identifies and prioritizes other parts of our pension business processes and systems that must be modernized. In 2020, we will continue to monitor the business and IT risks that need to be addressed and adjust the roadmap accordingly.

## **Information/Cyber Security Improvements**

In 2018, OPB selected and began the implementation of a Managed Security Service Provider (MSSP). This was the initial focus of a Cyber Security Roadmap which lays out both the strategic and operational activities in the information security space.

We have made good progress in the implementation of the key items identified in the roadmap to date. As OPB begins to move further into Client Digital Services, the use of Cloud and Software as a service offerings, the focus of the roadmap and the security program is changing to focus more on Digital Identity and access management (IAM), requiring OPB to develop a New Digital Application Security approach, which can be shared with vendors as we build the various Pension Modernization Solution components.

## **IT Infrastructure Management Improvements**

OPB Information technology is operated as a fully outsourced service. The existing outsourcing arrangement is coming to its end of life. In 2017, OPB began the transition from one consolidated outsourced vendor to three areas of IT focus. This was done to diversify the concentration risk (too much with a single vendor should issues arise) and to allow OPB to gain the best-in-class advantage in the three critical areas of:

- Information/cyber security management;
- Application management and enhancement; and
- Information technology infrastructure management.

In 2018, we transitioned to the new Security vendor. In 2019, we transitioned to a new contract but with the existing Application management vendor. In 2019, we also selected and began the transition to the new Infrastructure management vendor.

The Infrastructure model we selected is more of a service and Cloud-based model (we currently procure and own the infrastructure and the vendor manages it for us). Choosing the cloud service approach will allow us to more quickly, securely and cost effectively support the infrastructure needed for safe and efficient concurrent development required operationally and as contemplated in the pension consolidation and pension modernization plans.

The transition of the entire OPB technology infrastructure is a major undertaking and will be implemented beginning in late 2019 and continuing through 2020 before reverting to a continuous improvement model as we move forward. This shift also affects the funding approach for IT by reducing capital/depreciations cost of “buying the assets” to an operational cost of “using the vendors’ assets.” This shift begins in 2020.

The procurement and selection of these vendors was a major undertaking of resources in IT and the procurement team and a significant resource and financial cost associated with transition. To date we have seen improvements in our ability to move the security and application management programs forward and expect to see the same in the Infrastructure space.

## Performance Metrics and Targets

### OPB's Approach to Output and Outcome-based Reporting

OPB approaches its key performance indicators (KPIs) in a manner that supports the Province's commitment to evidence-based reporting through output and outcome-based reporting. Ensuring that we are consistent in measuring our performance within our two primary reporting documents – our Business Plan and Annual Report – provides our stakeholders, including the Plan Sponsor, with meaningful metrics that underline OPB's function and effectiveness as the administrator of the Public Service Pension Plan (PSPP). Each 2020 initiative and key performance indicator (KPI) includes reference to both the output and outcome to Plan stakeholders.

### Key Performance Indicators and Metrics

OPB has adopted a number of key performance indicators (KPIs) to measure the success of our vision and strategies as well our success with execution. The KPIs represent the outcomes relating to the Plan that are most important to the Plan stakeholders. The KPIs are set forth in the following table.

Business Objective	Defined Output	Performance Metric
Investment Execution	OPB's investment return versus the Strategic Asset Allocation benchmark	Outperform the benchmark
Investment Risk Management	OPB's actual risk versus risk budget	Less than 2%
Member & Pensioner Service	Overall satisfaction with client services	8.7 or higher
Employer Service	Employer satisfaction scores	7.8 or higher
Business Plan Achievement	<p>Advancement of strategies and initiatives (both planned and emergent). In particular:</p> <ul style="list-style-type: none"> <li>• Completion of ONTC plan merger</li> <li>• Completion of Funding Risk Study and development of Funding Response Plan</li> <li>• Completion of Asset/Liability Study and update of Strategic Asset Allocation</li> <li>• Issued RFP and selected vendor for new employer and e-Services portals as</li> </ul>	Substantial delivery/achievement of Business Plan initiatives

Business Objective	Defined Output	Performance Metric
	well as preparation of development plan <ul style="list-style-type: none"> <li>• Completion of Judges' plan restructuring</li> </ul>	
Managing Change	Management's ability to review and respond to emerging priorities through the year	Substantial delivery/ achievement of other priority initiatives that emerge during 2020
Managing to Budget	Actual vs budgeted expenses	Within budget
Cost-efficiency	Expense management ratios (cost per net assets available for benefits): <ol style="list-style-type: none"> <li>1. OPB operating expenses</li> <li>2. IMCO costs</li> <li>3. Consolidated</li> </ol>	<ol style="list-style-type: none"> <li>1. 15 basis points or lower</li> <li>2. 50 basis points or lower</li> <li>3. 65 basis points or lower</li> </ol>
Financial Health of PSPP	Level of, and year-over-year change in, going concern funded status	Plan remaining 90% or more funded on a going concern basis
Employee Engagement	Organization engagement % Response rate %	80% or higher 87% or higher

## Key Risk Areas

### Enterprise Risk

To help manage uncertainty in our business we use Enterprise Risk Management (ERM). Our ERM framework is integrated into the strategy development process to help us identify, assess and monitor key risks that could impact our strategic objectives and business plan initiatives. We will continue to enhance the strength of our ERM to help meet the following risk management objectives:

- Elevate a shared understanding of risks and opportunities;
- Generate proactive versus reactive decisions;
- Improve outcomes by reducing uncertainty around future potential scenarios; and
- Facilitate a company-wide culture of discussion on risk practices.

Our top three key risks are:

1. **Plan sustainability.** All defined benefit pension plans face the risk that they may be unable to meet all current and future obligations while remaining affordable over the long term. For OPB, this means the development of a chronic, significant funding short-fall (10% or more on a going concern basis) that leads to a significant decline in the sustainability of the

PSPP. To mitigate this risk, we carefully manage funding of the Plan within our ability to control or influence funding levels to avoid significant shortfalls. Management's current risk reduction efforts are focused on five core areas:

- Performing funding scenario and data analysis including stress testing and funding review study to improve insight into funding risks and potential mitigations;
- Regularly review the Fund's SAA to improve investment returns, manage investment risk and achieve an appropriate matching of our investments with the Plan liability profile;
- Advocate and pursue investment asset pooling to improve net investment returns, risk management and cost efficiency;
- Implementation of consolidation strategy to maintain or improve Plan demographics and economies of scale; and
- Communications and ongoing dialogue with the Plan Sponsor, participating Employers and other government stakeholders to educate them on possible funding scenarios and build support in advance for mitigation actions.

2. **Investment performance and oversight of IMCO.** We are highly dependent on the ability of our investment manager, IMCO. We rely on IMCO to execute OPB's SAA with the objective of achieving performance that can meet or exceed target returns. This includes IMCO achieving SAA phase-in targets, completing internalization projects, and implementing enhanced risk management and reporting systems. OPB has developed and implemented a supplier monitoring and oversight program for the relationship with IMCO. This includes regular reporting on compliance requirements under the Investment Management Agreement (IMA), advances in risk management activities and detailed fund performance reports.

3. **Modernization of our core systems.** Pension Modernization presents significant opportunity while introducing enterprise-wide program level risks. Pension Modernization will modernize our service offerings, improve efficiency of delivery and will address at-risk legacy technology. Using a combination of our enterprise program management framework and through Management's deliberate, incremental modular approach we will address risks of unexpected program costs, unplanned delays, breakdowns in change management and data governance processes or failure to deliver expected program outcomes.

Over the next year, OPB's ERM will continue to focus efforts to create, preserve and realize value by delivering an integrated view of key risks and their interdependencies.

## Investment Risk

OPB mitigates Investment Risk in several ways, in partnership with IMCO:

- OPB formally reviews its SAA at least every three years so that Management and the Board of Directors can align the Plan's asset mix relative to its pension obligations taking into



account the Plan's funded status, the then-current economic environment and the changing demographics and composition of the Plan membership. The ultimate goal of OPB's SAA is to design an asset mix that, when implemented, will generate investment returns in excess of the Plan's actuarial discount rate. An A/L Study was completed in late 2016, and a new SAA was approved by the Board in March 2017. The 2017 SAA's phase-in allocation targets to mid-2020 continue to call for a continued shift in Plan assets from public to private markets strategies. OPB will complete a new A/L Study in 2020 and will develop a plan to implement any required changes to the Plan's SAA to ensure that our asset mix is appropriate for the coming years, given projected future liability streams;

- To ensure that IMCO is appropriately managing investment risk on behalf of OPB and Plan members, OPB developed and staffed an oversight function in 2018. This helps to assure OPB management and Board members on an ongoing basis that IMCO is prudently managing Plan assets;
- Through a newly developed monitoring program, OPB monitors, assesses and reports on IMCO's performance regularly to the OPB Board of Directors. A variety of key performance indicators (KPIs) allow us to assess IMCO's investment performance and overall performance of its contractual duties, responsibilities and obligations to OPB. One area of focus of these KPIs is captured in a phrase that IMCO uses regularly: Clients First and Costs Matter;
- OPB's Chief Investment Officer oversees OPB's fiduciary responsibilities and ensures that IMCO is managing Plan assets and related investment risks in accordance with our investment strategies and policies;
- OPB previously developed a Risk Dashboard model providing Management with the ability to attribute, monitor and manage Total Risk, Active Risk and Surplus at Risk. The model is able to report at the SAA, asset class and mandate level and was designed so that investment risk levels could be managed within the parameters established by OPB's Investment Risk Policy. The Risk Dashboard also enabled Management to integrate Surplus at Risk analysis into the investment decision process to optimize incremental returns and mitigate the risk that returns were insufficient to meet OPB's pension liabilities. OPB's Risk Dashboard was transferred to IMCO, and IMCO continues to assess, manage and report on the foregoing risks as they pertain to OPB's Investment Portfolio in accordance with OPB's Investment Risk Policy;
- The Chief Risk Officer (CRO) of IMCO is expected to provide strong, independent risk management leadership within IMCO, similar to best-in-class institutional pension fund managers. The CRO oversees the design and implementation of IMCO's critical enterprise and investment risk management functions and takes a comprehensive approach to risk monitoring;
- IMCO's Investment Risk Function has developed a robust process to help set the risk and return targets for each of the IMCO investment strategies, and it is currently formalizing a

set of investment risk protocols geared toward the effective monitoring of these targets. The IMCO Risk Function looks to introduce an IMCO Investment Risk Policy in 2020, further providing for a strong risk governance framework;

- In 2018, IMCO completed a proof of concept for the use of an investment risk analytical solution which was subsequently implemented. Daily feeds of OPB's investment-related data are now being received and analyzed and risk/return reporting is being provided to OPB using the enhanced risk analytics available within the platform. Such analytics include Total Risk, Active Risk and Factor Risk contributions at various portfolio levels for public and private investments under normal and stressed market conditions;
- Investment risk management, including environmental, social and governance (ESG) factors, is integrated into the investment activities and decision-making process at IMCO;
- IMCO has developed an Asset Allocation framework which aims to enhance the resilience of investment performance in different market environments, reduce drawdown risk in stressed environments and seek a more balanced exposure to macro risk factors. OPB will collaborate with IMCO in the preparation of OPB's upcoming A/L Study and the development of the resultant SAA to take advantage of the benefits of this new framework;
- In executing OPB's SAA, IMCO's portfolio construction process aims for better alignment of the risk factors driving investment returns and liability growth, such as sensitivity to interest rates and inflation; and
- IMCO is well positioned to further invest in advanced risk measurement and management systems.

## Governance and Operations

OPB is a significant financial institution and has fiduciary duties and a duty of care to approximately 90,000 active and retired members. OPB is accountable to the Government of Ontario as the Plan Sponsor and has legal obligations to a number of regulatory bodies, such as the Financial Services Regulatory Authority of Ontario and the Canada Revenue Agency. OPB is also required to comply with many of the Government of Ontario's corporate directives. As such, OPB is committed to the highest standards of business practice in matters of governance, risk management, compliance, transparency, business continuity and resilience, records management and privacy. Over the past several years OPB has made great strides in strengthening its practices in each of these areas, which has led to increased expenses for compliance and risk management. For example:

- **Procurement Process** – work has commenced to automate, streamline and improve the efficiency of the overall procurement function and ensure compliance with government policies and directives on procurement activities;
- **Information and Data Governance** – OPB recognizes that protecting our client information, including data, is one of its greatest responsibilities and continues to invest in its

management and protection. This is critical as technologies, tools and channels for communication continue to evolve. Work has begun to enhance our information governance program including restructuring of our team supporting information governance activities and a review of our information inventory. In conjunction with pension modernization work, better systems and processes for managing electronic records will be reviewed.

- **Accessibility** – OPB’s public website was rebuilt in 2018 and steps were taken to make it compliant with accessibility standards. Over the next few years, OPB will rebuild its member and employer portals, ensuring compliance with Web Content Accessibility Guidelines 2.0, under the *Accessibility for Ontarians with Disabilities Act, 2005*.
- **Compliance** – with increasing governance, risk and compliance obligations, OPB will be introducing systems to better support its compliance program, including automation of certain activities, introducing specific beneficiary language into members communications, and greater visibility into compliance risk management.
- **Compensation** - OPB recognizes compensation as a key component in achieving its long-term strategies and organizational effectiveness. As an agency of the Government of Ontario, OPB is committed to providing excellent service and value for money to our clients and stakeholders while operating in a public sector fiscal environment. OPB regularly participates in third-party external compensation surveys and comparisons with other public sector pension plans and agencies to assess compensation comparators (i.e., review of base salary, incentives and insured benefits). In assessing market compensation levels, the comparator organizations we include must be those with which we compete for talent and against which OPB’s performance is compared. OPB ensures that we continue to monitor and comply with any updated and revised legislation and regulations regarding public sector compensation.

## **Additional Services to the Province**

OPB provides additional employee benefit administrative services for the Province under Service Level Agreements. These services are all provided on a cost-recovery basis and have no net impact on OPB’s operating expenses budget:

1. Pension administration services to the Provincial Judges Pension Plan;
2. Administration of the insured benefits programs to the Province’s retired employees who are retired members of the Plan. These include the setup and communication of available benefits, and the deduction of health, life and travel insurance costs from the retired members; and
3. Supplementary pension plan administration for eligible retired members in the Plan.

## Financial Budget – 2020

(All amounts are expressed in thousands of dollars unless otherwise stated)

### Budget Overview

Our operating budget is comprised of two main expense categories: Base Operating Expenses – our ongoing business operating expenses; and Initiative expenses – expenses we expect to incur to advance discrete projects during the year.

Table 1 shows these categories of expenses. Total combined operating expenses for 2020 are budgeted to be \$40.2 million, or 3.8% more than the 2019 budget.

The majority of the 3.8% change reflects the incremental cost of the additional 10 complement positions needed to address the increased service demands and client expectations noted on page 12 (2.2%). Without this requirement, our other operational and initiative costs are only expected to increase 1.6%, which is below the current rate of inflation in Ontario.

**Table 1: Total Budget**

Combined Operating Expenses (in thousands of dollars)	2020 Budget	2019 Budget	Change in \$	Change in %
Base Expenses	36,715	35,411	1,304	3.7%
Initiatives	3,490	3,314	176	5.3%
<b>Total Operating Expenses</b>	<b>40,205</b>	<b>38,725</b>	<b>1,480</b>	<b>3.8%</b>

### Budget and Risks

Management has identified the following factors that may adversely impact the costs as set out in the 2020 Budget:

1. Costs and staffing resources related to implementing any new or modified legislation or to government workforce adjustments that have not already been considered as part of the 2020 Budget. Some of the potential items are identified in Table 4, below, as Budget Risks; or
2. Costs associated with unexpected events or litigation.

To mitigate the above-noted risks, the Executive Leadership Team regularly meets to consider the impact of unplanned events on planned projects and the budget. Where possible, priorities are adjusted to ensure that the overall budget impact is managed.

### Base Operating Expenses

A significant portion of OPB's operating expense budget is base expenses. Overall, these operations are budgeted to increase by 3.7% compared to the 2019 budget. Table 2 below shows the breakdown of the expenses into the various operational components.

**Table 2: Base Operating Expenses**

Base Operating Expenses (in thousands of dollars)	2020 Budget	2019 Budget	Change in \$	Change in %
Staffing Costs (Table 2.1)	22,028	20,717	1,311	6.3%
Office Operations (Table 2.2)	4,740	4,770	(30)	(0.6%)
Technology (Table 2.3)	7,287	6,832	455	6.7%
Professional Services (Table 2.4)	1,100	1,173	(73)	(6.2%)
Depreciation (Table 2.5)	375	675	(300)	(44.4%)
Communication, Board & Audit (Table 2.6)	1,185	1,244	(59)	(4.8%)
<b>Total</b>	<b>36,715</b>	<b>35,411</b>	<b>1,304</b>	<b>3.7%</b>

We have provided additional information on our largest budgeted expenses below, including information explaining the changes from last year's budget.

### 2.1 Staffing Costs

Staffing costs (in thousands of dollars)	2020 Budget	2019 Budget	Change in \$	Change in %
Total	22,028	20,717	1,311	6.3%

Staffing costs (full-time and non-permanent staffing) includes salaries and wages, benefits, staff development and recoveries. Recoveries relate to staff time spent administering benefit programs outside the PSPP on behalf of the Province of Ontario. These programs include administrative services for the Provincial Judges Pension Plan, some insured benefits programs, and supplementary pension plans.

The increase in staffing costs in 2020 is primarily driven by plans for 10 new complement to address increases in operational demands, government initiatives as described earlier, as well as business process improvement strategies (business and technology) to drive more effective services and cost efficiencies.

OPB has been mindful of prudently managing complement and budget within the public sector fiscal environment through resourcing constraints and over the years we have held steady on complement and pension operating costs. However, over the last several years, pension administration at OPB has become more varied and complex. Work volumes have increased and demands from clients and stakeholders have also continued to increase as a result of a variety of factors. In 2019, after careful review and analysis, we identified the need to adjust our human resource requirements moving forward in the pension administration area to directly support efficient and effective pension administration and support for client and stakeholder initiatives.

Additional considerations regarding staffing costs are:

- Target incentive rates remain unchanged from 2019. However, the budget reflects incremental increases in staff and salary changes.
- Modest merit increases based on performance for non-bargaining employees have been budgeted for. Actual compensation adjustments will be aligned to government direction or legislation.
- Wage increases for bargaining unit employees have been budgeted per the 2018 negotiated settlement.
- OPB's benefits costs, including pension contributions, for full-time employees remain at 21%. For 2020, we have also included an estimate of benefit costs for contract employees recognizing the increasing numbers of contract employees.
- Recoveries of staffing costs are expected to be higher in 2020 due to increased services to the Judges Pension Plan.

## 2.2 Office Operations

Office Operations (in thousands of dollars)	2020 Budget	2019 Budget	Change in \$	Change in %
Total	4,740	4,770	(30)	(0.6%)

Office operations include rent, office expenses, ADP payroll processing, pension regulator fees and travel. There are some cost savings in the telephone communications budget as no new enhancements are planned for 2020. This is offset by increases in the premises lease cost and ADP payroll processing charges as new clients are integrated as retired members.

## 2.3 Technology

Technology costs (in thousands of dollars)	2020 Budget	2019 Budget	Change in \$	Change in %
Total	7,287	6,832	455	6.7%

The technology budget consists of both oversight and maintenance of current pension administration and business infrastructure needs. In 2019, a new IT service contract commenced, which included the provision of technology infrastructure that OPB would previously have purchased. In 2020, this new approach adds approximately \$330 in cost compared to 2019. This higher service cost is partially offset by savings in depreciation.

In addition, the estimate for application services has been increased by \$127. Some of these services had previously included with initiatives in prior years' budgets and are now integrated into regular operations.

## 2.4 Professional Services

Professional Services costs (in thousands of dollars)	2020 Budget	2019 Budget	Change in \$	Change in %
Total	1,100	1,173	(73)	(6.2%)

Professional services include consulting, actuarial and legal costs. Legal costs are expected to come down due to the significant reduction in anticipated legal services for OPB's Investments department and modest reductions in other departments - Human Resources, Corporate Risk Management and Cyber Security. These reductions were partially offset by increased actuarial costs associated with implementing pension mergers.

## 2.5 Depreciation

Depreciation (in thousands of dollars)	2020 Budget	2019 Budget	Change in \$	Change in %
Total	375	675	(300)	(44.4%)

Depreciation is planned to be less in 2020 resulting from changes to the small equipment capitalization policy. In addition, the change to a new IT service delivery model reduces large IT equipment purchases. However, this is offset somewhat by larger IT service provider costs.

## 2.6 Communication, Board and Audit

Communication, Board & Audit (in thousands of dollars)	2020 Budget	2019 Budget	Change in \$	Change in %
Total	1,185	1,244	(59)	(4.8%)

This includes communication activities with our clients and other stakeholders, our Board of Directors' compensation, and both our internal and external audit services. The decrease in budget is mainly due to an anticipated reduction in mass mail volumes as we transition to 'Digital First' and a renegotiated contract for OPB's communication services.

## 2020 Initiatives

Expenses for initiatives are generally one-time or project-based costs that support a specific objective or initiative identified as furthering the progress towards fulfilling OPB's various key goals, objectives and risk management imperatives. The costs of these initiatives, which may include costs from multiple expense categories, are listed below. Certain details related to these initiatives have been described throughout this Business Plan. The expenses are the external costs of the initiatives. The internal costs (such as salaries and related benefits of permanent staff), while considered in the planning and execution of the projects, are not included as part of the initiatives budget; they are already included as base operation expenses.

The budget for initiatives in 2020 is \$3.5 million, up from \$3.3 million in 2019.

For 2020, the initiatives address the main themes of (1) mitigating risks associated with continuing to operate our current pension administration system; (2) completing the transition of the IT infrastructure to a new outsourced vendor; and (3) continued development of the plan to gradually replace our end-of-life pension administration systems. All the initiatives included in the 2020 Budget are summarized in Table 3 below.

**Table 3: 2020 Initiatives**

No.	Business Objective	2020 Budget <i>(in thousands of dollars)</i>	Output	Deliverable & Outcome
1	Pension Administration Systems Risk Mitigation – Re-Platform of e-Services and Employer Portal  (Part of Pension Modernization) <b>Supporting Strategy:</b> Advanced Business Processes and Systems	1,325	The technology supporting our client and employer portals is at end-of-life and requires re-platforming for continued service, as well as enhancing cyber security and meeting AODA compliance requirements.	Re-platformed e-Services and employer portal sites. To be implemented in 2021 with the vendor selected in 2020.
2	Business Process Modernization  (Part of Pension Modernization) <b>Supporting Strategy:</b> Advanced Business Processes and Systems	432	The determination of future requirements and process design to improve efficiency and support the portal replacement.	Client Engagement and Experience Strategy  Future State Process Design and business requirements for Portal replacement.
3	Pension Modernization – Data Inventory and Foundational Technical Architecture  <b>Supporting Strategy:</b> Advanced Business Processes and Systems	58	An initial future state Data model and technical architecture in support of the Pension Modernization Program with a focus on the detail required for the portal replacements.	A documented map of the current state architecture to support informed recommendations about future state architecture.



No.	Business Objective	2020 Budget (in thousands of dollars)	Output	Deliverable & Outcome
4	Infrastructure Transition <b>Supporting Strategy:</b> Advanced Business Processes and Systems	475	The continued implementation and improvement of the transfer to the new Infrastructure Technology Service Provider ITSP vendor.	New IT processes and tools, automated reports, improved monitoring techniques and asset management.
5	Cloud migration or Refresh of the Storage Area Network (Data Storage of Production systems) <b>Supporting Strategy:</b> Advanced Business Processes and Systems	450	Our current Infrastructure data storage is now at its end-of-life stage and we would need to either refresh them, or move our current infrastructure to the Cloud.	Procuring SAN (Storage Area Network) and other hardware equipment needed to support our day-to-day systems operations, or we move data and systems to the Cloud services that will be provided by the new ITSP vendor.
6	Network Switches Refresh <b>Supporting Strategy:</b> Advanced Business Processes and Systems	85	Our current Network switch support ends in 2019. We will renew support if possible or replace switches that require a refresh.	Procurement of new switches or renewed support for existing ones in the 200 King St. W network environment.
7	Enhance Application Cyber-Security <b>Supporting Strategy:</b> Advanced Business Processes and Systems	115	Create and document an application coding framework which will be the basis of all future application development.  This is also required to support Pension Modernization solution development	A defined application coding framework and IT quality assurance process(es) which can be provided to vendors contracted for system development and ensure a consistent & effective security posture for OPB application solutions.

No.	Business Objective	2020 Budget (in thousands of dollars)	Output	Deliverable & Outcome
8	Identity as a Service/Identity Access Management (IAM) <b>Supporting Strategy:</b> Advanced Business Processes and Systems	57	Revise OPB's approach to identifying "users" of OPB IT Resources to enhance security and customer experience for both staff and clients/employers.	Identify new solution to simplify management of "identities and the related system access" and support expanded third-party IT services and the new portal.
9	Archiving solution under the new ITSP <b>Supporting Strategy:</b> Advanced Business Processes and Systems	60	Support for an archival process for systems data and retrieval process to comply with the revised records retention schedules for electronic data and allow for cost effective archived data retrieval solutions.	OPB's ability to retrieve data from a more cost effective archived solution.
10	Pension Consolidation <b>Supporting Strategy:</b> Cost-Efficiency	247	Merger of TVO and ONTC into PSPP	Completed buybacks and the assumption of the ONTC pensioner payroll.
11	Update and improve our communications with our Members <b>Supporting Foundation:</b> State of the Art Governance	80	A bundle of automated and manual letters will require updates stemming from legislated changes, plan changes to beneficiary designation and improved alignment with our advisory language.	Letters produced efficiently through the client workflows that reflect these current requirements.

No.	Business Objective	2020 Budget (in thousands of dollars)	Output	Deliverable & Outcome
12	<p>Adapting our space to our post-IMCO needs</p> <p><b>Supporting Strategy:</b> Cost-Efficiency</p> <p><b>Supporting Foundation:</b> High Performing People</p>	50	In 2020, IMCO will be moving out of the OPB sub-leased premises, which will be assumed back by OPB. Final planning and construction in 2020.	<p>OPB will be settled in the 2½ floors of 200 King West after the planned renovations on 21<sup>st</sup> and 23<sup>rd</sup> floors are completed.</p> <p>The 50 thousand dollars represents non-capitalized costs associated with the planning and move. Please refer to the Capital Expenditure Budget below for the capital portion.</p>
13	<p>Regulatory Compliance Management</p> <p><b>Supporting Foundation:</b> State of the Art Governance</p>	56	Implementing a tool to support regulatory compliance management, by capturing/documenting the universe of compliance requirements.	Compliance management tool is populated and used to report on compliance in 2020.
	<b>Total</b>	<b>3,490</b>		

## 2020 Budget Risks – Potential External Service Demands

We have identified potential material increases in service demand that have not yet become sufficiently likely to include them in our Business Plan and Budget. These are listed on Table 4, below.

**Table 4: Budget Risks**

	Risks to Budget	Short Description	Additional Commentary
A	Pension Consolidation – potential for additional pension plans to be merged into PSPP	There are a number of small pension plans that may commence merger processes with the PSPP during 2020.	The decision to proceed and timing of these potential mergers/transfers is not certain, thus the work effort cannot adequately be judged.
B	Police Divestments	There are a number of municipal police forces in the Province which may be transferred to the OPP. This creates material service demand, including actuarial services, to address the pension implications for affected personnel.	Divestment costings and transfer options communications would be needed for each applicable member joining the PSPP. Transfers would be required to be implemented for those electing transfers.
C	Intranet Risk Mitigation	Currently the OPB internal Intranet site is based on a soon-to-be end-of-life application. Rather than invest in another RFP process for another web platform, OPB will look towards the newer fully supported Oracle WebCenter Sites platform that is now currently supporting the OPB Public site.	<p>The main goal of this potential project is to address the loss of the support from the current intranet service provider when it ceases December 1, 2020.</p> <p>By moving the OPB Intranet site to the Oracle WebCenter Sites platform, the new site will enjoy similar user benefits that the new OPB public site now currently enjoys.</p> <p>The project to extend the life of the current intranet would be needed if transfer to the WebCenter platform cannot occur in 2020 and the concern for cyber security or ability to maintain the existing solution without vendor support increases.</p>

	Risks to Budget	Short Description	Additional Commentary
D	Provincial Judges Pension Plan Redesign	Most of the effort to provide functionality to the redesign is expected to be complete in 2019. However, there will likely be additional considerable work to be done in 2020.	The costs associated with the redesign are reimbursed from the Province. However, the resources used to implement may have an impact on OPB's ability to address other initiatives.
E	Other compliance or sponsor-driven requests	There remains the possibility (as has occurred in the past) that the Province requests changes to PSPP or insured benefits plan that will drive new initiatives and require resources for their implementation.	As above, costs associated with some of these changes may be reimbursable from the Province. However, the resources used to implement may have an impact on OPB's ability to address other initiatives.

## 2020 Capital Expenditures Budget

While not part of operating expenses (other than the associated depreciation of these assets), the 2020 planned increase in capital spend is primarily associated with the reconfiguration of the OPB's leased premises on the 21<sup>st</sup> floor and repatriation of the 23<sup>rd</sup> floor currently subleased to IMCO when they vacate this floor and relocates to its new leased premises in 2020.

**Table 5: Capital Expenditures Budget**

Capital Expenditures (in thousands of dollars)	2020 Budget	2019 Budget	Change in \$	Change in %
Base	130	125	5	4.0%
<b>Initiatives</b>	518	-	518	<b>N/A</b>
<b>Total Capital Expenditures</b>	<b>648</b>	<b>125</b>	<b>523</b>	<b>418.0%</b>

The Capital Expenditure component of the planned renovations to efficiently accommodate our employees in reconfigured space arises from: (i) relocating to the 23<sup>rd</sup> floor after IMCO vacates the floor; (ii) vacating our premises on the 19<sup>th</sup> floor; and (iii) downsizing our current premises on the 21<sup>st</sup> floor by 50%.

The total estimated net cost of the renovations is \$1.6 million pending the results of a formal procurement process, with \$1.0 million covered by a tenant improvements allowance provided by the building landlord.

The net cost to OPB will be depreciated over the remaining term of the extended lease which expires on December 31, 2024.

## Appendix I: Defined Terms

In this Business Plan:

**Asset Pooling** means the asset pooling initiative contemplated by the *Investment Management Corporation of Ontario Act, 2015*.

**bps** means basis points, a measure equal to one one-hundredth of a percentage point of assets.

**Budget** means the budget contained in this Business Plan.

**Business Plan** means this Ontario Pension Board Business Plan 2020-2022.

**CEM** means CEM Benchmarking Inc., an independent benchmarking company.

**ERM** means Enterprise Risk Management, a continuous, proactive and systematic process to understand, manage, and communicate risk from an organization-wide perspective. It integrates the risk management process into planning and decision-making by aggregating all types of risk from all parts of an organization and managing them on a comprehensive (portfolio) basis.

**IMCO** the Investment Management Corporation of Ontario (IMCO) commenced operations in July 2017.

**Investments** mean all activities relating to the investment and management of the Plan's assets, including front-, middle- and back-office resources.

**Management** means, collectively, employees of OPB holding the position of or senior to manager.

**Pension Administration** means all activities relating to the management and administration of the Plan.

**Pension Modernization** is a business transformation program enabled by technology that will advance client and stakeholder experiences as well as generate business efficiencies.

**Plan Sponsor** means the Province of Ontario in its capacity as sponsor of the Plan.

**VEP/TEI** refers to the Government's Voluntary Exit Program, the Transition Exit Initiative or a similar program under which employees terminate their employment voluntarily, or take the place of an employee who has received notice of lay-off, in return for severance benefits.

## Appendix II: 3 Year Projected Expenditures 2020 – 2022

The following 3 year projection builds upon the 2020 budget. We have factored inflationary increases for most expenses and no substantial complement increases in 2021 or 2022. The initiative costs of consolidations or other Provincial compliance or sponsor-requested service requests may pose upward pressures on the budget.

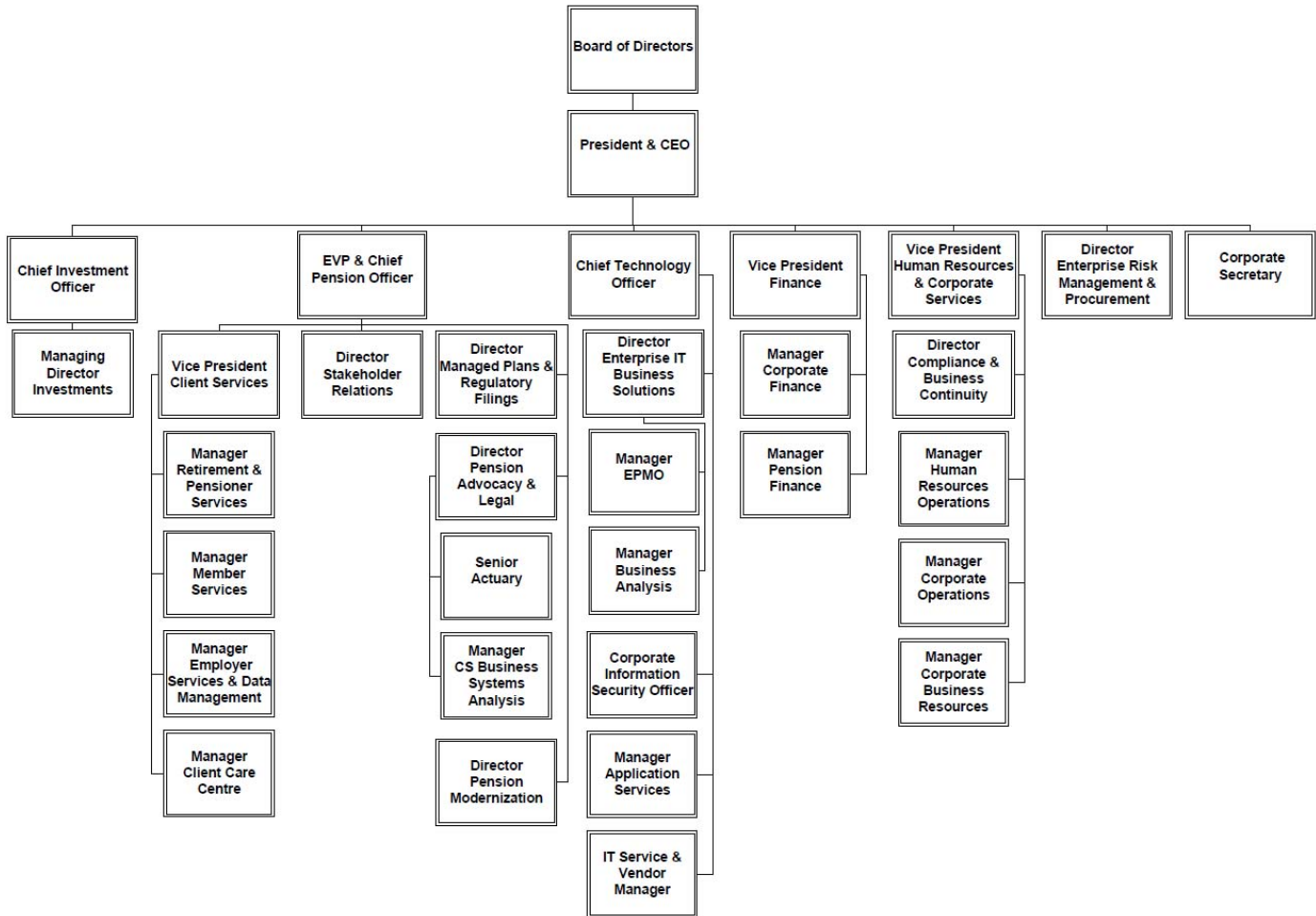
Operating Expenses (in thousands of dollars)	2020 <sup>1</sup>	2021 <sup>2</sup>	2022 <sup>2</sup>
Staffing Costs	22,028	22,579	23,031
Office Operations	4,740	4,811	4,883
Technology	7,287	7,396	7,507
Professional Services	1,100	1,117	1,134
Depreciation <sup>3</sup>	375	450	450
Communication, Board & Audit Initiatives <sup>4</sup>	1,185	1,203	1,221
	3,490	3,590	3,690
<b>Total Operating Expenses</b>	<b>40,205</b>	<b>41,146</b>	<b>41,916</b>
Total Capital Expenditure <sup>5</sup>	648	130	130
Estimated Staff Complement <sup>6</sup>	176	176	176

### Notes and Assumptions for 3 Year Projected Expenditures 2020-2022

1. The amounts for 2020 are taken from the 2020 Budget.
2. For 2021 and 2022 an increase of 1.5% assumed for all expense categories unless otherwise indicated. Staffing costs for 2021 and 2022 have been adjusted to consider the impacts of the annualization of the additional staff hires in 2020 and existing labour agreements.
3. Built into the depreciation expectations for 2021 and 2022, is an additional 125 thousand for the 2020 leasehold improvements with some offset reduction from other assets reaching end of their depreciation cycle.
4. Initiatives are estimated to increase by 100 thousand dollars each subsequent year anticipating continuous systems and process improvements. Risk mitigation and business process modernization activities are expected to last several years.
5. Capital Expenditures are expected to revert to normalized levels after the reconfiguration of OPB's leased premises in 2020.
6. Staff complement for 2020 is confirmed at 176. Resource planning occurs annually in consideration of OPB's commitments and priorities. Future years are estimates only.



# Appendix III: Organizational Chart – Management Level



September 1, 2019