



**Ontario Pension Board  
Business Plan  
2023-2025**

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## OPB Overview

Ontario Pension Board (OPB) is the administrator of the Public Service Pension Plan (PSPP - the Plan), a defined benefit (DB) pension plan, with approximately 93,000 members – current, retired and deferred – and oversees the investment of \$33.8 billion of net assets (the Fund) that fund the benefits under the Plan.

The Plan's assets have been managed by the Investment Management Corporation of Ontario (IMCO) since 2017. OPB continues to set the Plan's investment strategy and maintains an oversight role with respect to the Plan's assets.

This Business Plan speaks to the three-year period from January 1, 2023 to December 31, 2025; with the primary focus on 2023.

## 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 2023 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:

- Maintaining effective expense management oversight and controls to align with the government's fiscal objectives and minimize administrative costs for our stakeholders.
- Effectively managing our strategic, operational and financial risks to help ensure our business objectives are met. This includes responding to, managing, and mitigating the impacts of the COVID-19 pandemic on OPB and the PSPP and providing a safe environment for employees and clients.
- Prioritizing our strategic focus on the financial security and soundness of the PSPP for all members.
- Delivering superior client service to help members understand the value of the PSPP, make well informed decisions, and plan for retirement. This includes continuing to explore and implement digital services.
- Providing ongoing oversight of PSPP's assets, which are managed by IMCO.
- Maintaining an effective system of internal controls and compliance to promote transparency, accountability, and alignment with the government's fiscal objectives to ensure efficiency and sustainability.

- Continuing to support the government’s efforts on the sustainability and affordability of public sector pension plans announced in Budget 2020. This includes work with partners in the interest of minimizing administrative costs for public sector pension-holders and improving efficiencies.
- Providing ongoing support for government-requested initiatives and the seven government-wide priorities that have been established for all agencies.

In accordance with the provisions of the Plan, OPB administers other public sector pension and insured benefits plans. The administration of those 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.

## **Approach to 2023 Business Plan**

OPB respects the Government of Ontario’s objectives to restrain expenses in the Ontario Public Service (OPS) and broader public sector. In preparing this Business Plan and Budget, Management reviewed all expenditure requests to ensure that only those deemed necessary were included in the Business Plan. The Business Plan and Budget for 2023-2025, provides for total combined operating expenses of \$51.9 million, which represents a \$4.6 million or 9.7% increase over our 2022 budget. Even with this increase, we continue to be competitive with our peers, even the ones who have significant advantages of scale.

The increase is largely driven by new staffing complement requirements and technology costs to support the aging infrastructure.

The budget discussion begins on page 34 of this document. Three items of note:

1. Our staffing costs reflect an increase in complement necessary to address the increased client service demands that have developed over the past few years, including addressing complexities resulting from sponsor-driven requests.
2. Our technology support costs have also increased as a result of the improvements and updates we have made to enable our digital advancement as well as from implementing critical cyber security improvements.
3. Higher inflation levels are impacting our projected expenses for goods and services, including technical support costs in 2023. The extent to which it will impact our costs in 2024 and 2025 will depend on the extent to which inflation remains high.

Each year, OPB has a budget to conduct its normal operations (Base Operations Budget) and what we refer to as an “Initiatives Budget” to fund projects that are outside our day-to-day operations. These initiatives can fall into five categories, as follows:

1. Risk Mitigation - Mandatory
2. Compliance - Mandatory
3. Non-Recoverable Plan Sponsor-Driven - Mandatory
4. Recoverable Plan Sponsor-Driven - Mandatory
5. Strategic

Risk Mitigation initiatives are those that we deem to be essential to mitigate a risk we have identified to OPB or the PSPP. This includes such things as enhancing our cyber security, replacing aging information technology (IT) infrastructure or updating systems that are end of life or will no longer be supported by the vendor.

Compliance initiatives are those that are required to meet a legislative requirement or applicable government directives. Examples include meeting the requirements of the *Accessibility for Ontarians with Disabilities Act (AODA)* in communications and issuing our Annual Pension Statements and Retired Member Statements. The ‘Plan Sponsor-Driven’ initiatives are those that we need to deliver on to meet a direction from our Plan Sponsor. They may arise for a number of reasons, such as the merger of smaller agency pension plans into the PSPP, enhancing the services we provide for the Provincial Judges Pension Plan (PJPP), or government human resource initiatives that have pension implications.

The expenses relating to these initiatives and operational activities may be recoverable or non-recoverable. They are recoverable if they are not for, or do not relate specifically to, the PSPP as a whole and can therefore not be paid from the Fund that OPB holds in trust for the PSPP. An example would be the initiative to convert the existing Supplementary Plan to a Retirement Compensation Agreement (RCA), for which the expenses are recoverable from the government. Similarly, administration services or initiatives for the PJPP would either be paid for by its Board or the government. Recoveries are netted out against our expenses in our budget. It is important to note, however, that such initiatives do require resources to deliver on them both initially and once implemented and therefore can impact our need for full time equivalent staffing complement.

As the Risk Mitigation, Compliance and Sponsor-driven initiatives are mandatory; we must build these into our Business Plan and Budget. We have little flexibility in the timeline to complete these initiatives, though we do endeavour to negotiate timelines for Plan Sponsor-driven initiatives, where possible.

Initiatives that do relate to the PSPP which are not recoverable are reflected in our expenses. Examples of this include implementing changes to our processes to support changes the Plan Sponsor has introduced. While the two Sponsor-driven initiatives we have in next year’s budget

are expected to be lower cost and effort than in previous years, we are usually asked to support additional initiatives after our Budget has been set. We continue to expect Sponsor-driven initiatives to require substantial effort and resourcing for the foreseeable future. It is important to note that many of these initiatives are also aligned with the strategic direction of OPB/PSPP and its members. For example, plan mergers tend to improve the demographics of the PSPP, improve OPB's economies of scale and enhance the Plan Sponsor's perception of defined benefit pension plans.

The fifth category comprises what we refer to as Strategic Initiatives. These projects are driven by OPB to further our Vision 2025 and Strategic Plan. Vision 2025 is supported by two main strategies: Plan Sustainability and Client Service Excellence. While we have a number of initiatives planned for 2023, and several years following, to deliver on these strategies, the initiative that will absorb the most resources, human and financial, is our Client Experience/Digital First initiative. This involves the rebuild of our pension administration business processes and IT systems to deliver a more modern, digital/online, and efficient client service experience and, to provide our staff with the modern tools to do their jobs more efficiently. This initiative is fully aligned with the government's strategy to improve the customer experience in the delivery of public services and to move to a Digital-First delivery channel where practical. As the government has recognized, moving to a Digital-First service delivery approach requires upfront investment. Modernizing our pension administration systems and processes is a major undertaking. We expect this transformation will take several years to complete and will continue to require incremental investments in technology, people, and financial resources during that period.

We expect initiatives to make up a significant part of our budget over the coming years, as we continue to modernize our business processes, enhance service delivery, implement new systems, and support government priorities. We do not expect substantial increases to the initiatives budget in future years unless we need to purchase an all-in-one pension administration system for Voyager.

## **OPB's Vision 2025 and Strategic Plan**

In 2019, OPB adopted Vision 2025 as our vision and strategic plan for the organization. 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 and is very well aligned with OPB's mandate from the President of the Treasury Board (set out in the beginning of this document).

To realize Vision 2025, OPB has set its strategic focus on Sustainability and Service Excellence. The focus on Sustainability is comprised of three main strategies:

- Investments
- Funding and Design
- Cost-Efficiency

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

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

We have also identified four 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
- High-Performing People
- Social Responsibility

Within each of the Strategies and Foundations, we have identified initiatives that we will undertake in the coming years. Each year our business plan 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.

OPB's stated values are intended to work in combination with the Vision 2025 strategies as the underpinnings of 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 collaborative, 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

- **Accountability:** we protect the pension promise through advocacy and by delivering effective and efficient programs and services that drive Plan sustainability

## **Diversity, Equity and Inclusion**

Diversity, equity and inclusion (DEI) are core values for OPB and we recognize that to continue meeting the evolving expectations of our employees, clients and stakeholders, we need to continue evolving and advancing our approach to DEI.

We have taken a number of steps in recent years to advance DEI within our organization, including:

- Mandating inclusion, diversity and bias awareness training for all employees
- Joining the Canadian Centre for Diversity and Inclusion (CCDI)
- Signing the BlackNorth Initiative CEO Pledge and beginning to build pledge commitments into our DEI approach
- Engaging our investment manager, IMCO, about diversity and inclusion within our investment portfolio
- Partnering with The 519, a Toronto-based community centre that focuses on 2SLGBTQ+ communities, to provide Gender & Sexual Diversity training for all employees to support understanding and an inclusive environment that respects and affirms members of the 2SLGBTQ+ community
- Partnering with the Canadian Association of Urban Financial Professionals (CAUFP) and leveraging their job boards to help promote awareness of OPB career opportunities to a more diverse candidate pool
- Providing quarterly progress updates to the Board of Directors and our HR Committee and holding dedicated education sessions for our Board on DEI topics
- Reviewing our HR practices and policies to identify and address unconscious bias and other barriers, and adopting anonymized candidate screening to help reduce bias in our hiring process
- Including a voluntary section in our 2021 anonymous employee engagement survey focusing on employees' experiences related to diversity, equity and inclusion as well as collecting socio-demographic information that will help support our future efforts to enhance DEI



- Creating a dedicated employee education space and communication campaign for ongoing awareness-building and education
- Conducting a Respectful Workplace survey to better understand our employees' experiences and to develop a responsive action plan
- Working with CCDI to establish a DEI Advisory Council to further engage with and hear from our employees on their experiences and identify areas of focus

We recognize that this journey requires a sustained effort and ongoing learning. In 2023, we will continue to explore new opportunities to support a more inclusive environment for employees, clients, and stakeholders.

Mandatory training on microaggressions (scheduled to commence in fall 2022) will continue into the new year, with specialized training for leaders. Other initiatives and learning opportunities will be informed through our partnerships and the recommendations of our DEI Advisory Council, as well as events, topics and dates of recognition and significance.

We will continue to keep our clients and stakeholders updated on our progress through our website and Annual Report.

## **Status of the Public Service Pension Plan**

Protecting the pension promise for members and ensuring that the Plan is sustainable over the long term is our top priority. As of December 31, 2021, the last filed valuation, the Plan had a funded status of approximately 94%. In addition, the Plan has accumulated a funding reserve (unrecognized asset gains and indexation reserve) of \$1,042 million.

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 members living longer than expected and due to the prior prolonged low-interest-rate environment. We have also lowered the discount rate we use to calculate the present value of future pensions payable by the Plan and strengthened the longevity (life expectancy) assumptions to better align with our expectations for the future.

That said, there are other factors impacting our expectations for the funded status of the Plan over the next several years. First, our expectation is that it will be challenging for investment returns over the next five to 10 years to exceed the returns over the past 10 years. Second, as the Plan provides cost of living adjustments, the high inflation in 2022 will lead to increased liabilities which will have a negative impact to the Plan's funded status and current expectations are that we will continue to see higher inflation levels over the next couple of years. However, we have also seen a very rapid increase in bond yields since March 2022 that will likely lead to an increase in the discount rate, which would offset some or all of the impact of inflation on the liabilities.

Lastly, the funding rules for single-employer pension plans (such as the PSPP), require us to add a prescribed margin for conservatism (PfAD) to our liabilities when determining our funded status. The additional margin increases the volatility of the Plan's funded status. In 2019 and 2020, the lower bond yields lowered the plan's funded status, despite strong returns which exceeded the Plan's discount rate. In contrast, last year, rising bond rates helped to lower the PfAD and helped improve the Plan's funded status. The last few years have demonstrated how sensitive the Plan's funded status is to changes in Government of Canada long-bond yields from one valuation date to the next.

While we believe the increase in member and matching employer contribution rates that took effect in 2018 and the existing special payments from the Sponsor will contribute significantly to restoring the Plan's funded status over time, given the current inflation levels, investment outlook and funding rules for sole-sponsored plan, there is a high risk of further deterioration in the funded status. As a result, we initiated a funding risk study in 2021 to model the funded status under various scenarios and to develop potential responses to restore the funded status and maintain the sustainability of the Plan. As the pandemic has unfolded, we have continued to add additional scenarios to reflect the changing economic and market conditions. Given the number of changes the pandemic introduced, the modelling has taken longer than we originally anticipated. We completed the study in 2022. The study gave us insight into the future funding challenges for the Plan which will help us in developing potential options to mitigate this risk.

## **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. How effectively OPB responds to these factors can significantly impact the Plan and our stakeholders. Accordingly, properly identifying and assessing these factors is necessary to successfully fulfill our mandate. 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 while making the investment necessary to maintain and improve our client service, increase our use of IT in our service delivery, manage risk and respond to growth in demands from employers, clients, and the Plan Sponsor.

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 few Business Plans, our existing pension administration systems are nearing the end of their life cycle. The administration of the Plan has grown more complex and intricate since these systems were put in place in the early 1990s. While we have introduced new tools and services to better serve our growing membership, such as our new member and employer portals, our primary pension administration systems now need to be updated to meet a digital service mandate.

In 2022, we made additional enhancements to our member and employer portals, began modernizing our Retirement Planning Tool, and began the procurement process to replace our primary calculation and rules engine. Over the coming few years, we expect to replace our main pension administration systems.

In the past few years, 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 began addressing this risk by updating our member and employer portals, which we successfully launched last fall. We will continue to modernize our pension administration systems over the coming years.

To support our pension modernization program, OPB will continue to refine:

- the Cloud services model, which we transitioned to enable us to deliver the Data Centre and Infrastructure support necessary to modernize our pension application systems and portals
- our secure application development approach, including the introduction of an Agile development methodology tools and processes, to enable increased scalability

**Investment Environment/Outlook:** With the uneven emergence from the COVID-19 pandemic over the past 12 months, the uncertainty regarding the economic outlook is, if anything, more pronounced than a year ago. Key aspects of the current environment and outlook include the following:

- The recent spike in consumer prices, particularly in energy and other commodity-based goods. This has rapidly shifted the Bank of Canada's and other central banks' focus from stimulating the economy with ultra-low interest rates a year ago to bringing inflation back down within the target range of 1-3% with significantly higher rates in 2022 and beyond.
- Mixed key economic indicators such as high savings and low unemployment rates combined with low or negative economic growth create an unclear picture for the strength of the overall economy. Labour market dislocations are also placing considerable stress on employers seeking to attract and retain talent and are creating significant challenges for key social services such as health care.
- Heightened geopolitical risk, headlined by the war in the Ukraine, but also more widely Europe with the potential expansion of NATO and increasingly strained U.S./China relations after the congressional delegation visit to Taiwan in July.
- The ongoing recovery in the global supply chain system that was dramatically impacted during the pandemic.

- With the significant correction in the equity markets and the dramatic rise in bond yields so far in 2022, valuations have fallen to more normal, and attractive historical levels. This means that, while YTD returns were disappointing, the long-term expected returns are more appealing.

Despite the economic and capital markets backdrop, IMCO continues to focus on an investment strategy that includes many of the same themes as in prior years and is now able to take advantage of a different market environment. These themes include:

- Evolve the structure of the public equities portfolio to invest in higher conviction strategies and take increasingly meaningful positions in investee companies.
- Build out the credit portfolio, tapping into opportunities across the credit spectrum including potential direct lending.
- Within the real estate portfolio, continue to seek to reduce the allocation to retail properties as well as the Canadian bias in favour of more exposure to industrial and residential properties, often in the US or Europe.
- Pursue opportunities to reduce costs, for example through the utilization of factor investing and increased allocations to direct and co-investment acquisition of private assets.
- Build a public market alternatives program that acts as a strong diversifier, particularly when other asset classes are struggling to generate positive returns.

**Environmental, Social and Governance:** We recognize the importance of strong Environmental, Social & Governance (ESG) practices. Both OPB and our investment manager, IMCO, are committed to comprehensively addressing ESG practices.

Over the past couple of years, we have taken steps to further our ESG practices, including:

- OPB conducted a thorough review of ESG practices to help determine steps forward in developing a Responsible Investment Action Plan in 2020 and updated the Plan in 2022
- As part of this Action Plan, OPB rejoined the United Nations (UN) Principles for Responsible Investing (PRI) as an asset owner. This commits us to supporting and implementing those principles and submitting comprehensive reporting on all our ESG activities to PRI annually
- OPB's Statement of Investment Policies & Procedures was modified to reflect updated investment beliefs for ESG issues
- OPB's Board of Directors approved a Policy for ESG Investment Issues
- IMCO developed a three-year action plan for ESG with major developments in all four pillars of the plan, i.e., Integration, Stewardship, Screening and Sustainability

- IMCO has developed a climate action plan, which included scenario analysis to understand how investments will be affected by varying increases in the Earth's temperature
- IMCO has committed to reaching net-zero emissions by 2050 or sooner and will be setting interim targets by the end of 2022 in alignment with the Paris Aligned Investment Initiative (PAII)
- IMCO released its first ESG report this past June which included information in alignment with the recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD).

Part of furthering our ESG commitment includes enhancing our communications to clients about the commitments we're making and how we're tracking against them. OPB is in the process of developing an ESG Communications Strategy to enhance our reporting and transparency on ESG issues for members. As part of the strategy development, OPB conducted our first ESG survey with members to better understand our members' communication preferences and their perspectives on ESG issues. We expect to finalize our ESG communications strategy in 2022 and begin implementing the recommendations in 2023.

**Demographic and Economic Trends:** 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. We have had to strengthen our longevity assumptions used to value the liabilities of the Plan. To reflect anticipated future returns, we also lowered the discount rate we use to calculate the present value of the liabilities in the Plan. We believe that these were prudent steps to manage the long-term health of the Plan. OPB will continue to monitor the demographic and other trends affecting the Plan (such as change initiatives within the Ontario Public Service OPS) 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 several important government directives and legislative requirements with which OPB must comply, such as Ontario's new Digital, IT and Data Directives (and related policies), anti-spam legislation, enhanced procurement rules, and the AODA to name a few. Our focus will be to maintain consistency with the modernized PIPEDA and make revisions as required to the privacy standard, since OPB is not governed by it.

In 2023, we will continue to focus on ensuring we meet our regulatory obligations while promoting a culture of ethical behaviour. To further enhance and streamline our compliance processes we will undertake a risk-based review of OPB's regulatory and legislative requirements. We will also explore the adoption of an online compliance management software to build efficiencies around oversight and reporting. Our structured approach of reviewing current compliance processes with an aim of increasing efficiencies will contribute significantly towards maintaining our goal to be a high performing organization.

Given the volatility that the pandemic continues to create, we will continue to incur additional expenses to ensure a responsible and safe return-to-work plan that protects our employees and clients and fully complies with any public health directives and government regulations that might be in place.

**Government 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. Provincial priorities that impact OPB include:

- Online services for clients which we are advancing through our Retirement Planner project, helps our members effectively plan for their retirement. This project not only aligns with the government’s “Digital First” strategy but also helps improve financial preparedness reducing reliance on government support in retirement. Our journey mapping project will also help us better understand our members’ expectations and digital needs as they move through their pension plan membership. These maps will be critical in helping us build effective digital services, improve our efficiencies and also meet the changing needs of our members through our modernization project.
- Other government human resources (HR) priorities, such as its upcoming HR and payroll systems modernization. Supporting this initiative will help us ensure the new systems effectively integrate with ours and provide us with the information we need to calculate accurate benefits and support clients in making sound pension decisions. It will also provide us with an opportunity to further improve data reporting accuracy and efficiency.
- Additionally, each year, we receive intra-year requests from the Plan Sponsor to support initiatives, which we expect to continue in 2023.

Each of these initiatives has created or will create human resources and financial demands on OPB but we have not yet built this impact into our Business Plan or Budget since we have not yet received sufficient information from the Sponsor to do so.

**Rising Service Expectations:** Our 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. We need to modernize our technology to ensure we continue to keep our clients’ information secure while providing them with the online services and tools they expect.

**Increasing Service Demands:** OPB continues to focus on delivering exceptional service to our clients in an ever-evolving environment. Our client service is focused on effectively responding to increased business demands from strategic and government initiatives, increased business complexity resulting from plan mergers we’ve completed, and additional compliance requirements. These demands have increased significantly over the last few years. The new

digital features we've launched during the pandemic – video 1-on-1 meetings with Advisors and secure document upload have been critical to helping us support clients effectively while transitioning to a hybrid work model.

## **Strategic Direction**

### **Vision 2025**

Fundamentally, OPB has two critical objectives: first, to manage the financial health of the Plan so that it remains sustainable over the long term, and second, to provide outstanding pension administration services to our members, employers, and stakeholders. This is reflected in our two core strategies in Vision 2025: Sustainability and Service Excellence.

We have developed 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). We believe these are appropriate to meet our objectives in managing the Plan and supporting the government in its efforts to improve the Province's finances as well as in managing the impacts and seizing the opportunities presented by the current environment.

OPB is confident that these strategies, supported by the three foundations, will be advanced through the initiatives outlined in this Business Plan.

### **Sustainability Strategies**

Our sustainability strategies are directed toward achieving excellence in the management of all Plan funding variables (net 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 are achieved across generations of members.

### **Investments**

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

The Plan's pension obligations drive OPB's long-term investment strategy. 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; strong investment returns are therefore critical to the long-term health of the Plan.

OPB continues to set the Plan's Strategic Asset Allocation (SAA) which IMCO then executes in accordance with established investment policies and individual asset class strategies. IMCO reports investment returns and investment risks to OPB on a regular basis.

The SAA is critical as it:

- Identifies percentage targets for individual asset classes that make up OPB's Investment Portfolio (i.e., the Portfolio's Asset Mix)
- Drives investment performance and is OPB's most important investment decision. The new SAA is the fund-level investment strategy that we believe will earn the investment returns required to meet or exceed the discount rate used to calculate the present value of the Plan's pension obligations at an acceptable level of risk.

Going into 2023, a new SAA is being implemented with the second of four transitional changes being made to move to the new allocation over a four-year period. The new SAA was set after completion of an Asset-Liability Study in 2021 and key changes from the prior SAA include an initial allocation to Public Market Alternatives as well as incorporating portfolio-wide leverage. The changes to the SAA produce comparable long-term expected returns to the existing SAA, despite lower asset class expected returns due to the low-yield environment. The SAA calls for leverage at a level that keeps us within appropriate risk parameters while also improving our diversification and enhancing the plan's risk return characteristics.

OPB monitors IMCO's investment performance and the performance of its duties, responsibilities and, obligations under the contractual agreements between OPB and IMCO (i.e., 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 often less expensive than external management. IMCO is not-for-profit, so OPB is charged a fee on a cost-recovery basis.

## **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 net of all expenses
- Cost of the benefits promised by the Plan



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

- Annual Plan valuations (even if not required by the regulators)
- Experience studies to determine trends in the cost of benefits and to assess whether we need to change the assumptions we use to value the Plan
- Asset/liability studies that are conducted at least every three years and are used to set our strategic asset allocation for our investments
- Long-term funding studies to determine adequacy of contribution rates

It is also critical to continue advocating for a regulatory environment that is conducive to the sustainability of the Plan and DB model. We believe DB plans are the most effective approach in achieving retirement income while still being affordable to both employers and employees over the long term. We also believe that, 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, professional organizations, and employee groups
- Partnerships with our peer plans on matters of mutual concern
- Monitoring industry trends regarding plan design
- 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 include 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.

As with asset pooling, merging smaller public sector pension plans into the PSPP (we refer to this as pension consolidation) is intended, among other benefits, to improve our economies of scale. This helps reduce our per-member cost and aligns with government direction to improve efficiency and reduce redundancy across the broader Ontario public sector. The consolidation of the pension plans of smaller government agencies, whose principal focus is not administering a pension plan, is also likely to improve performance and client service. Even if consolidation does not increase our active membership numbers significantly, it helps offset other membership reductions that have resulted from government restructuring, such as the modernization of the Ontario Lottery and Gaming Corporation and the Transition Exit Initiative, so that our ratio of active-to-retired members is maintained. This ratio is very important: the Plan needs active contributors to spread the risk and cost of funding the Plan and to be able to take investment risks to enhance our returns over time. While there are currently no known

plan mergers for 2023, we continue to look for new growth opportunities to add members to the plan.

Two other important initiatives will also drive cost-efficiency. Many of our business processes and systems are outdated and need to be reviewed and updated to be more effective and more efficient and support the digital-first approach. This is critical for our digital strategy and pension administration system modernization. Through our pension modernization program, we will focus on upgrading our systems and tools to enhance client experience, move our digital strategy forward, improve our business process efficiencies, increase our information and cyber security, and mitigate our IT risks. Enabling ongoing remote work capabilities for staff and effective online supports for our clients will be critical to support the workforce of the future and evolving environmental considerations/space constraints.

While we have an established roadmap for the pension modernization program, we will consider moving components forward if it will help us implement the changes, we need to become more effective and efficient. A good example of that is our decision in 2020 to move the pension merger calculator forward to support our ability to handle a merger expected in late 2021. By moving this work forward so it was ready for the merger, we avoided significant manual effort for our staff while also improving the client experience and moving part of our pension modernization program forward.

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

OPB respects the Government of Ontario’s objective to restrain expenses in the OPS and broader public sector. In preparing this Business Plan and Budget, Management reviewed all expenditure requests to ensure that only those 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 procurement practices and digital and data 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)
- Required to support Plan Sponsor initiatives (e.g., the addition of an RCA)
- 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

The increase in expenses in recent years is due to a number of factors. Those include:

- Service demand growth
- Major sponsor-driven transactions (plan mergers and consolidation, OPP divestments, converting Supplementary Plan into an RCA, restructurings of disability provisions in the PSPP) that have also resulted in a mandate with increased ongoing responsibilities
- Rising IT infrastructure and operating expenses relating to business resiliency and cyber security
- Commencement of a multi-year program to modernize OPB's pension administration business processes and IT systems
- Rising complexity due to the foregoing factors
- Increase in government compliance directives (AODA, digital IT and data directives, anti-spam legislation)
- Fundamental shifts in OPB's operating and service delivery model triggered by the pandemic

For example, set out below is the service demand increase we have experienced in several of our most labour-intensive life cycle events:

- **Enrolments:** **68% higher** than historical norms for 2015-2017  
**87% higher** than average for 2019-2021 levels
- **Buybacks:** **49% higher** than historical norms 2015-2017  
**85% higher** than average for 2019-2021 levels
- **Transfers In:** **51% higher** than historical norms 2015-2017  
**117% higher** than average for 2019-2021 levels
- **Estimates:** **93% higher** than historical norms 2015-2017  
**73% higher** than average for 2019-2021 levels
- **Phone calls:** **21% higher** than historical norms 2015-2017  
**29% higher** than average for 2019-2021 levels

While OPB's pension administration expenses have risen in dollar terms, the pension administration expense ratio (pension administration expenses as a percentage of dollars under administration) in 2022 was 0.11%. This is an increase of just 0.007% over 2021 and a decrease of 0.02% from 2010. Under our proposed 2023 Budget, the ratio would increase by 0.01 to 0.12%. OPB's pension administration and consolidated (pensions and investment) expense

ratios are competitive with that of other peer plan administrators, including those that are much larger and have economies of scale advantages.

We regard the consolidated expense ratio as the most reliable cost-efficiency comparator as allocation differences between organizations can be significant. OPB's consolidated expense ratio in 2021 was 0.54% which, again, is very competitive with our peers.

## 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 the modern service experience our clients expect
- **Anytime/Anywhere Self-Service** – increasing the service availability of our websites, as well as expanding and enhancing our online services for members
- **Effective and Timely Service Delivery** - for transactions where the assistance of our client service staff is necessary
- **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 their personal information

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

- **Advisory and Education Services** - increase client engagement in retirement planning and deliver outstanding decision support
- **Digital and Online Services** - deliver anywhere/anytime access to information and self-service - this will also contribute to enhanced efficiency and will include appropriate cyber security and privacy protections
- **Advanced Business Processes and Systems** - the tools, systems and processes to deliver secure, timely and cost-effective service to our clients

These three strategies are discussed in greater detail below.

## Advisory and Education Services

### Advisory Services

OPB's Advisory Services, which offers our clients professional retirement planning and decision-making support, continues to be our service excellence differentiator. Our team of Advisors, pension experts who are also Certified Financial Planners, 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 evolve our services to support the changing needs of our members. We continue to see an increase in video 1-on-1 sessions with Advisors, which enhances communication and relationship building, and contributes to a more positive client experience.

- Almost three quarters of members rate their satisfaction with their OPB Financial Advisor at nine or 10 out of 10
- These members also agree that their OPB Advisor:
  - was responsive to their needs and questions (94%)
  - provided the pension advice they needed (92%)
  - provided valuable insights they hadn't considered (87%)

We plan to continue to further enhance our Advisory Services 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 encourage active retirement planning and to assist clients with decision making
- Adding capability to better understand workforce changes that will impact members and employers and putting tools in place to help them navigate these changes.

### **Education Services**

OPB has 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 PSPP. Initially, the sessions provided an overview of the Plan. In recent years, we have introduced tailored financial and retirement planning sessions that are designed for better member engagement to assist them 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 interactive tailored presentations continues to increase and feedback on the sessions is very positive.

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

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

## **Digital and Online Services**

In the financial services industry today, clients expect to access information about their accounts and execute simple transactions online anywhere and anytime. OPB has an array of online self-service options for clients and has an employer portal through which employers can do business with OPB. Our modernized member and employer portals, which launched at the end of 2021, have made our online services more accessible, user-friendly, efficient, and effective. These initial enhancements have helped lay the foundation for OPB to add additional online self-service transactions and tools as we progress through our modernization program. Enhancing our online service applications will increase the use of this service channel, making OPB’s operations more cost-effective and freeing up resources to meet the demand for our decision-support services.

As we progress through our pension modernization program, we will continue to enhance our digital and online services by:

- Increasing the number of self-service transactions that members and retired members can conduct online
- Advancing our Client Engagement & Experience Strategy to increase member engagement with retirement planning and enhance service delivery over the coming years
- Modernizing and improving the capabilities of our retirement planning tool
- Introducing a real-time Annual Pension Statement (APS) that will allow members to get an in-the-moment view of their accrued pension entitlement as opposed to the once-a-year snapshot that we now provide
- 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 staff to capture all client interactions, documents and to process transactions such as buybacks and transfers) are now nearing end-of-life and must be updated or replaced. Workflow and document management technologies have advanced significantly in recent years and have the potential to better integrate and enhance how we support client service delivery. As it stands today, we have multiple calculation engines each of which must be separately maintained and kept current with assumptions and variables. There are advanced tools/technologies that are now capable of more effectively handling all our rules and calculation needs.

These new 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.

## **Pension Modernization**

Our pension modernization program is a business transformation program, enabled by technology, which will advance client and stakeholder experiences as well as generate business efficiencies. Replacing our benefit entitlement calculation engine 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. It will also allow us to further improve our operational effectiveness while fully supporting our Advisory Services model and provide our clients with the tools they require to make sound decisions about their pension.

We invested a great deal of time and effort creating a pension modernization strategy that would position OPB for a successful business transformation program. Before starting our first major project, we created our Client Engagement & Experience Strategy to guide our modernization journey, mapped our current state business processes, identified the systems in need of replacement, determined the right architectural approach for our transformation and developed a high-level road map.

Our multi-year roadmap identifies and prioritizes the other parts of our pension business processes and systems that must be modernized in order to support critical business priorities and remote work capabilities. We will continue to monitor the business and IT risks that need to be addressed and adjust the roadmap accordingly.

We successfully completed the first significant piece of our transformation last fall – the re-platforming (upgrading) of our member and employer portals (Portals Phase 1). Ensuring this work was completed in 2021 before the vendor stopped supporting the old platform at the end of the year was critical. Using an agile development approach in combination with user experience testing gave us the flexibility and insight we needed to successfully deliver on this important first phase. The re-platformed portals help us further strengthen security with the introduction of multi-factor authentication and improve overall performance and stability. The new portals are built to the Web Content for Accessibility Guidelines (WCAG) 2.0 Level AA standard for accessibility.

In 2022, we continued to refine the portal experience and implemented the first phase of our Retirement Planner enhancement, bringing the planner into alignment with our modernized portal. This tool helps members identify their retirement goals and objectives and whether they are on track to meet them or need to set aside additional savings. The first phase improves the accessibility, modernizes the user experience for members and introduces the ability for members to provide direct feedback on the tool. This feedback will help inform the enhancements we will make in Phase 2 to not only help members plan effectively for their retirement, but also promote engaging with us on decision making and active retirement planning.

We also expect to begin building journey maps to identify the ideal client experience for each of our client lifecycles, which we will confirm through member research and testing. This work will inform our approach to innovating our processes to improve the client experience and enhance client engagement in retirement planning.

As we prepare to replace our remaining pension administration systems, including our main calculation and rules engine, we brought a consultant on board to help us prepare a request for information (RFI) to understand how the market has evolved over the last few years and to confirm whether an incremental or big-bang approach is best suited to our needs. We expect to issue an RFI for pension administration systems in the fall of 2022 and issue a request for proposal (RFP) to begin the procurement for our rules and calculation engine before the end of the year.

### **2023 Pension Modernization Initiatives**

In 2023, we will move forward on other key pieces of our pension modernization, including the second phase of the Retirement Planner project, and the Package of Projects 1 (includes modernizing our benefit entitlement calculator and rules engine).

We've provided additional information on our pension modernization initiatives for 2023 below.

#### **Package of Projects 1 (Benefit Entitlement Calculator & Rules Engine modernization)**

Our current approach to development and maintenance of pension plan rules and calculation formulas is outdated, cannot be adapted in a timely way to meet the needs of a digital modern workplace, and doesn't provide the scale and agility to handle multiple plans or complex member rules. Replacing the existing systems with a modern rules and calculation engine will enable enhanced digital service delivery, improve business processes, integrate quality assurance, and make it easier for us to adapt to changing rules and plan provisions.

This project will span multiple years. In 2023, we expect to finalize the procurement, develop our road map and begin assembling off-the-shelf components for a new benefit entitlement calculator, rules and reporting engine. We will also begin to address any data work necessary to successfully implement the new calculator, including an assessment of our data governance and related practices to identify any gaps that need to be addressed.



## **Retirement Planner**

OPB's Retirement Planner helps members create an effective plan for their retirement by helping them understand how their pension fits into their overall financial picture, including their projected retirement expenses, so they can make well informed decisions about their pension throughout their career. Members can use the tool on their own or book a 1-on-1 session with one of our Advisors who can use the Retirement Planner to build a robust retirement plan that reflects a member's financial and personal circumstances and goals.

While the current planner is robust, it requires considerable manual effort to capture the necessary information required to produce a retirement plan. In 2023, we will conduct an RFP to select a vendor who will work with us to develop and implement enhancements to the Retirement Planner that will improve member engagement and retirement planning, as well as providing ongoing maintenance.

## **Program Governance and Business Enhancements Guidance**

This project will continue throughout the modernization program to ensure we have the right governance, processes & protocols in place to successfully deliver on our objectives.

In 2023, this project will focus on maintaining effective governance and oversight including ongoing project review and prioritization, resourcing, management of interdependencies and risks.

It will also include the enhancement and implementation of standardized Software Delivery Lifecycle (SDLC) processes we need to put in place to develop new software at the scale necessary to deliver on our modernization roadmap.

Finally, it will include the development of client journey maps, which will help us identify the ideal client experience from enrolment to retirement. This will include member research and validation of our journey maps. Journey maps will provide us with the clarity necessary to effectively prioritize which requirements will improve the client experience the most and deliver the most value.

## **Information/Cyber Security Improvements**

OPB continues to address the evolving and increasingly complicated cyber threat landscape that we face through an in-depth defence strategy. To support OPB's goals to expand our digital and online services, adopt a hybrid workplace model, and ensure the confidentiality, integrity and availability of our systems and information to provide our members and stakeholders with superior service, we continue to evolve and enhance our information security maturity in a multi-pronged approach.

In 2022, OPB approved a new multi-year cyber roadmap with the theme of “Increasing business resilience.” Building on an already strong culture of information and cyber security awareness, we will enhance our security capabilities in the following areas in 2023:

- Endpoint security: increasing our visibility and awareness of vulnerabilities, misconfigurations and suspicious activity, and optimizing our response to identified areas of potential weakness
- Data management and governance: improving our capabilities for identifying, classifying, and securing unstructured data stores such as email and files
- Third Party Risk Management/Security: enhancing our third-party risk identification and response
- Enhanced network security monitoring and incident response: increasing resources tasked with monitoring network activity through automation and mature threat hunting methods
- Application security: maturing our DevOps approach with more automation and use of modern SDLC practices and methodologies, resulting in more secure application releases

OPB recognizes that everyone throughout the organization has a role to perform in information security. Our security awareness and education program continue to evolve ensuring that we are constantly aware of new threats to our Service Excellence and Advanced Business Processes and Systems objectives, and ways to be prepared to deal with them.

### **IT Infrastructure Management Improvements**

OPB’s IT infrastructure is operated as a fully outsourced service, which allows us to benefit from the improvements our vendor makes to optimize its infrastructure environment.

We continue to improve efficiency in infrastructure processes to help support pension modernization. To better enable a new hybrid post-pandemic work model, we will implement a modern approach for enhanced digital collaboration and desktop management.

## **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 and reporting our performance in 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 PSPP. Each 2023 initiative and KPI includes reference to both the output and outcome to Plan stakeholders.

## Key Performance Indicators and Metrics

| 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 for the total portfolio and each investment strategy  | Within risk limits for the total portfolio and for each investment strategy             |
| Member & Pensioner Service | Overall satisfaction with client services  | 8.7 or higher   |
| Employer Service           | Employer satisfaction scores   | 8.1 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 pension modernization deliverables per the Business Plan</li> <li>• Complete or materially advance, projects initiated in response to requests from the Plan Sponsor in line with negotiated timelines and deliverables</li> </ul> | Substantial delivery/ achievement of Business Plan initiatives                          |
| Managing Change            | Management adapts and responds to emerging priorities through the year.  | Substantial delivery/ achievement of other priority initiatives that emerge during 2023 |
| Managing to Budget         | Actual vs budgeted expenses  | Within budget   |

| Business Objective            | Defined Output   | Performance Metric   |
|-------------------------------|--|--|
| Cost-efficiency               | Expense management ratios (cost per net assets available for benefits):<br>1. OPB operating expenses (pension administration and internal investment expenses)<br>2. IMCO costs<br>3. Consolidated | 16 basis points or lower<br><br>50 basis points or lower<br>66 basis points or lower |
| Financial Health of PSPP      | Level of, and year-over-year change in, going concern funded status  | Maintain or improve going concern funded status                                      |
| Employee Engagement           | Organizational Engagement and a high % response rate on employee surveys (i.e., engagement survey, pulse surveys, change management survey)  | 80% or higher on Organizational Engagement<br>87% or higher response rate            |
| Diversity and Inclusion (D&I) | <ul style="list-style-type: none"> <li>Delivery against DEI plan, including achievement of 2023 DEI commitment</li> </ul>  | Substantial achievement/delivery of 2023 D&I initiatives                             |

## Key Risk Areas

### Enterprise Risk

Our Enterprise Risk Management (ERM) framework is integrated into our strategic and operational development process to strengthen our ability to proactively identify, assess, monitor, and respond to key risks and opportunities 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:

- Enhance awareness around risk management practices across all functions and business units to help manage risk cost-effectively on an enterprise-wide basis
- Promote a proactive risk-based decision-making culture
- Elevate a shared understanding of risks and opportunities
- Continually assess, improve, and evolve ERM practices to support business resilience and effectively respond to the post-COVID volatile environment

Our top three key risks are:

1. **Plan sustainability** – All DB 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 shortfall (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 reviewing the Fund’s Strategic Asset Allocation (SAA) to improve investment returns, manage investment risk and achieve an appropriate matching of our investments with the Plan liability profile
  - Advocating and pursuing investment asset pooling to improve net investment returns, risk management and cost efficiency
  - Implementation of consolidation strategy to maintain or improve the Plan demographics and economies of scale
  - Funding risk studies to assess funding risks under a wide variety of scenarios and develop possible funding responses to address funding challenges that may emerge over time as well as risk mitigation strategies to reduce the likelihood or moderate the development of funding shortfalls
  - 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 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, improve our information security, and replace at-risk and outdated legacy technology.

Using a combination of our enterprise program management framework and through Management's deliberate, incremental modular approach we will reduce or manage the risks of unexpected program costs, unplanned delays, breakdowns in change management and data governance processes or failure to deliver expected program outcomes.

In the current rapidly evolving environment, we remain focused on identifying, assessing, and responding to heightened or emerging risks. In response, our aim is to remain vigilant, resilient, and responsive by continually assessing key risks, opportunities, and vulnerabilities both from across all functions within OPB and from external sources. During this time, the health, safety and well-being of staff and continuation of services we provide to our clients and stakeholders remain top of mind, in addition to preservation of our assets and maintaining stability of our operations.

Over the next year, OPB's ERM will continue to focus efforts to enhance and evolve its integrated and agile approach to managing risks and building resilience in today's rapidly evolving and dynamic environment with a goal of creating, preserving, and realizing value.

## **Investment Risk**

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

- OPB formally reviews its SAA at least every five years so that Management and the Board of Directors can align the Plan's asset mix relative to its pension obligations. This considers the Plan's funded status, the then-current economic environment and the changing demographics and composition of the Plan membership. The 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 Asset Liability (A/L) study was completed in early 2021, and a new SAA was approved by the Board in April of 2021. In addition, an implementation plan was approved that will result in the transition to the new SAA occurring over four years.
- To address the growing risk presented by climate change, OPB and IMCO have developed overarching policies within their respective ESG policies. In addition, IMCO has conducted climate scenario analysis as a precursor to developing a climate strategy that will articulate specific carbon emission reduction targets. IMCO will also begin reporting on climate-related metrics per the recommendations of the TCFD. These activities are planned for the 2022-2024 period.
- OPB monitors, assesses, and reports on IMCO's performance regularly to the OPB Board of Directors. A variety of 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 our investment fiduciary responsibilities and ensures that IMCO is managing the Plan assets and related investment risks in accordance with IMCO’s Core Governing Policies, which OPB reviewed and approved in 2019. This helps to assure OPB management and board members on an ongoing basis that IMCO is prudently managing Plan assets.
- IMCO has developed and evolved its risk reporting capability with comprehensive reports that are now presented to, and discussed with, the OPB Investment Committee on a quarterly basis. In addition, IMCO developed, adopted and reports on a Liquidity Coverage Ratio measurement. This is particularly useful during market crises such as the COVID-19 pandemic.
- 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 uses an investment risk analytical solution which includes daily feeds of OPB’s investment-related data that are received and analyzed. Risk/return reporting is provided to OPB using the enhanced risk analytics available within the platform.
- Investment risk management, including ESG factors, is integrated into the investment activities and decision-making process at IMCO.
- In executing OPB’s SAA, IMCO’s portfolio construction process considers the risk factors driving investment returns and liability growth, such as sensitivity to interest rates and inflation.
- IMCO is committed to continuing to develop advanced risk measurement and management processes.

## **Governance and Operations**

OPB is a significant financial institution and has fiduciary duties and a duty of care to more than 93,000 active, deferred 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, information management and privacy.

Over the past few 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:

- **Information and Data Governance** – OPB recognizes that protecting our members’ personal information is one of its greatest responsibilities and as such, continues to invest in its management and protection. In addition, we are working to mature our approach to information and data governance. Maximizing use and realizing the full value of our data (including protecting what’s sensitive) can improve the client experience, drive efficiencies and control risk. Work is underway to enhance our information governance program, with prudent consideration of changes in government digital, IT and data directives (and related policies) as they are modernized as part of Ontario’s Digital and Data Strategy. In conjunction with pension modernization work, we are reviewing the systems, controls, policies, and processes to strengthen the governance, management and stewardship of data within the organization.
- **Accessibility** – OPB continues to focus on making its services accessible to all clients. Our new member and employer portals, which launched in the fall of 2021, are built to the Web Content Accessibility Guidelines (WCAG) 2.0 level AA standard for accessibility as is the enhanced Retirement Planner tool launching this fall.
- **Risk and Compliance** – With increasing governance, risk, and compliance obligations, OPB will be implementing systems to better support its risk and compliance programs, including automation of certain activities, reducing manual effort supporting two separate, interrelated activities, and greater visibility into the status of risks and controls.
- **Business Continuity and Resilience** – OPB is committed to providing exceptional service to its members and stakeholders while protecting the health, safety and well-being of its staff and visitors. Each of these will be considered as OPB makes decisions and plans to return more activities to its workplace.
- **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 respecting the public sector fiscal environment in which it operates. 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 it continues to monitor and comply with any updated and revised legislation and regulations regarding public sector compensation.



- **Succession Planning** – OPB recognizes the importance of an effective succession plan and the criticality in minimizing the risk to the organization, particularly for our executive and leadership positions. Similar to many organizations in the current environment, we face significant competition within the sector to attract and retain skilled talent at all levels. Proactive and thoughtful succession planning and in-house leadership development play an essential part of our careful and prudent approach to organizational resource planning and design. The planning that commenced in 2022 will continue to support our work in 2023 and beyond, ensuring we have the skilled leadership and talent in place for short and long-term sustainability and organizational success.

## **Third-Party Services**

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

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 members of the PSPP. These include the set up and communication of available benefits, and the deduction of health, life and travel insurance costs from retired members' pensions
3. Administration of the Retirement Compensation Arrangement (RCA) for eligible PSPP members.

## Financial Budget – 2023

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

### Budget Overview

Our operating budget is comprised of two main expense categories:

1. Base Operating Expenses – our ongoing business operating expenses; and Initiative expenses
2. Expenses we expect to incur to advance discrete projects during the years

On a combined basis, our 2023 operating expense budget will be \$51.9 million. This represents an increase of 9.7% in our budget for 2023 over 2022. Table 1 shows the total of these two categories of expenses.

**Table 1: Total Budget**

| Combined Operating Expenses<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change in \$ | Change in<br>% |
|--|----------------|----------------|--------------|----------------|
| Base Expenses – ongoing operations                       | 42,150         | 36,990         | 5,160        | 13.9%          |
| Initiatives (Table 4)                                    | 9,710          | 10,280         | (570)        | (5.5%)         |
| <b>Total Operating Expenses</b>                          | <b>51,860</b>  | <b>47,270</b>  | <b>4,590</b> | <b>9.7%</b>    |

Our ongoing regular operations for 2023 is expected to go up by 13.9% year-over-year (increase of \$5.1 million). This increase is further broken down and explained in the next section. Our proposed budget for initiatives is expected to decrease by \$570 (5.5%) compared to last year. These initiatives are discussed after the base budget discussion.

## Base Operating Expenses

A significant portion of OPB's operating expense budget is base expenses. Table 2 below shows the breakdown of the expenses into the various operational components.

**Table 2: Base Operating Expenses**

| Base Operating Expenses<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change<br>in \$ | Change<br>in % |
|--|----------------|----------------|-----------------|----------------|
| Staffing Costs                                       | 24,120         | 20,760         | 3,360           | 16.2%          |
| Office Operations                                    | 6,090          | 5,580          | 510             | 9.1%           |
| Technology   | 8,950          | 7,690          | 1,260           | 16.4%          |
| Professional Services                                | 1,710          | 1,690          | 20              | 1.2%           |
| Depreciation   | 60             | 60             | 0               | 0.0%           |
| Communication, Board & Audit                         | 1,220          | 1,210          | 10              | 0.8%           |
| <b>Total</b>   | <b>42,150</b>  | <b>36,990</b>  | <b>5,160</b>    | <b>13.9%</b>   |

Staffing, office operations and technology costs are the three primary drivers for the increase followed by almost negligible increases in other expenses.

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

**Table 2.1: Staffing Costs**

| Staffing costs<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change<br>in \$ | Change<br>in % |
|---|----------------|----------------|-----------------|----------------|
| Total                                       | 24,120         | 20,760         | 3,360           | 16.2%          |

Base Operations staffing costs represents most (57%) of the base operational expenses at OPB. These have increased to accommodate the grow-in of the complement hired in 2022 and new complement planned for 2023. Staffing costs (full-time and non-permanent staffing) includes salaries and wages, benefits, staff development and recoveries.

Included in the staffing costs noted above are reductions due to recoveries of staff time spent administering benefit programs outside the PSPP on behalf of the Province of Ontario or other pension plans. These programs include administrative services for the Provincial Judges Pension Plan, the RCA, and some insured benefits programs.

It is important to note that the increases in the staffing costs in the 2023 budget are not currently inflationary impacts but are the result of complement increases required for the growing demands of our operations.

The major elements of the increase in staffing costs by 16.2% or \$3.4 million:

- Grow in of positions hired in 2022, staffing changes and promotional increases.
- 12 new complements planned for 2023 – in addition to seven unbudgeted, but necessary, hires in 2022.
- Recoveries for staffing costs under service level agreements have increased with the addition of the RCA administration – this plan was added to the portfolio of administration services undertaken by OPB in 2022. This increase in recoveries offsets some of the increases in staffing costs.
- Recoveries for internal staffing costs (which are “charged” or allocated to the initiatives) are expected to decrease compared to the 2022 budget. OPB allocates staff costs to the initiatives when time is spent directly on these initiatives by base staff complement. Thus, if less staff time is planned for the initiatives, this time remains in the base costs, appearing as an increase in base costs, even though staff levels may not change. Essentially, this increases the unapplied base staffing costs.
- Increases for bargaining employees have been provided as per collective agreement. Modest increase estimates for non-bargaining employees have also been budgeted for. All wages and salary increases (other than promotional increases) are well below current inflationary rates.
- Executive compensation continues to remain fixed as it has been for several years now, in accordance with Provincial legislation.
- There is proportionate growth in the incentives and benefit budgets to match the complement increases, while the target rate for incentives and benefits package remains unchanged.
- OPB’s benefits costs, including pension contributions, for full-time employees remain at 21% for full time employees and 15% for contract employees.

**Table 2.2: Office Operations**

| Office Operations<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change<br>in \$ | Change<br>in % |
|--|----------------|----------------|-----------------|----------------|
| Total  | 6,090          | 5,580          | 510             | 9.1%           |

Office operations include rent, office expenses, payroll processing, pension regulator fees and travel. Office operations costs are expected to go higher than 2022 due to inflationary increase for telephone communications, insurance costs (well above inflation) and rent – the rest of the office expenses are maintaining the same levels as in 2022.

**Table 2.3: Technology**

| Technology costs<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change<br>in \$ | Change<br>in % |
|---|----------------|----------------|-----------------|----------------|
| Total   | 8,950          | 7,690          | 1,260           | 16.4%          |

OPB has been mindful of prudently managing budget within the public sector fiscal environment through resourcing constraints over the years. However, our technology platforms are at risk of being obsolete and hence our focus on pension modernization and ramping up the technological structure and environment. The technology costs have been budgeted in 2022 to reflect ongoing developments of cyber risk, as well as the operational impacts of past and present initiatives to introduce technology.

The technology budget has base contract services for infrastructure, applications, and cyber security, which include inflationary increases as well as further service requirements to address the current and past initiative builds, as well as some increases to cyber security. The major pieces of the cost development for 2023 include:

- Contractual inflation increase built into the technology service provider contracts, including greater overtime impacts.
- Growth of costs, comprising:
  - o Grow-in of Development/Security Operations services for 2023 and for our Application Management Security Provider
  - o Inflation increases for outsourced contracts
  - o Kyndryl (technology infrastructure and support) flow-through from previous year's initiatives/projects/operational upgrades
  - o Talend licenses introduced for data management and eligible service initiatives
  - o Harmony Cloud used in end point security management tools and services
  - o Portal applications tools introduced with the new portals

**Table 2.4: Professional Services**

| Professional Services costs<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change<br>in \$ | Change<br>in % |
|--|----------------|----------------|-----------------|----------------|
| Total  | 1,710          | 1,690          | 20              | 1.2%           |

Professional services costs include consulting, actuarial and legal are planning a small increase over 2022.

**Table 2.5: Depreciation**

| Depreciation<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change<br>in \$ | Change<br>in % |
|---|----------------|----------------|-----------------|----------------|
| Total                                     | 60             | 60             | 0               | 0.0%           |

As there is only a small base of undepreciated fixed assets (leasehold improvements, furniture and computer equipment) the depreciation continues to be minor as in 2022.

**Table 2.6: Communication, Board and Audit**

| Communication, Board & Audit<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change<br>in \$ | Change<br>in % |
|---|----------------|----------------|-----------------|----------------|
| Total   | 1,220          | 1,210          | 10              | 0.8%           |

This includes communication activities with our clients and other stakeholders (such as surveys) and increases for Board of Directors' compensation (primarily driven by the quantity of Board and Committee meetings). Internal and external audit services are not expected to see any changes in budgeted amounts.

## 2022 Capital Expenditures Budget

The planned spend on capital expenditure is expected to have nominal purchases of leasehold improvements and furniture. No provision for computer hardware is provided as OPB is moving to a full services model, essentially it won't own hardware directly.

**Table 3: Capital Expenditures Budget**

| Capital Expenditures<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change in \$ | Change in<br>% |
|---|----------------|----------------|--------------|----------------|
| Base  | 80             | 80             | 0            | 0.0%           |

## 2023 Initiatives Budget

As noted earlier, the overall initiatives budget for OPB is expected to be lower than 2022. The modest increases in external vendors and base IT service contracts resources are offset by a significant reduction in OPB internal staffing resources applied to the initiatives.

**Table 4: Initiative Breakdown by Resource**

| Base Operating Expenses<br>(in thousands of dollars) | 2023<br>Budget | 2022<br>Budget | Change<br>in \$ | Change<br>in % |
|--|----------------|----------------|-----------------|----------------|
| External Vendor – green dollars                      | 4,190          | 4,180          | 10              | 0.2%           |
| Base IT services contract usage –<br>green dollars   | 770            | 710            | 60              | 8.5%           |
| OPB staffing usage – internal<br>resources           | 4,750          | 5,390          | (640)           | (11.9%)        |
| <b>Total</b>   | <b>9,710</b>   | <b>10,280</b>  | <b>(570)</b>    | <b>(5.5%)</b>  |

The full set of initiatives totals \$9.7 million, a reduction of \$0.6 million from the previous year. The Pension Modernization program portion of these initiatives is \$5.9 million, or 61%.

We consider the remaining \$3.8 million of 2023 initiatives to be mandatory as they either:

- mitigate risk due to our aged pension administration systems (beyond just the Pension Modernization program) and improve our system security and disaster recovery capability by moving our technology to the cloud.
- achieve compliance with legislative requirements.
- respond to Plan Sponsor-Driven initiatives or Directives that have an impact on the pension plan. As an example, costs to complete the implementation of ALOC/OCAA – Insured benefits eligibility changes are not recoverable from the Plan Sponsor.

The Pension Modernization program seeks to update our pension administration business processes and IT systems. In addition to advancing our strategic plan, it is in full alignment with the direction of the government to improve customer service in the public sector and to move to a higher focus on a digital approach to delivery of services. Therefore, these initiatives, while not mandatory, are key to meeting the government’s expectations.

OPB costs the initiatives in the following categories:

1. “Green dollars” – these are funds expended on vendors/third party services. Within this category are:
  - a. External Vendors, and
  - b. Base IT service providers that are allocating some of their resources explicitly to the initiatives.

2. Internal Resources – this is the application of the staffing time spent directly on initiatives.

As we established in the previous year’s Business Plan, the initiatives follow five themes (listed in order of budget impact, from highest to lowest). We have also noted the larger initiatives in these categories:

**1. Client Experience /Digital Services (\$6,750)**

The Province has indicated an expectation that agencies improve their customer experience and provide the delivery of more services online. Primarily, this includes the 2023 portion of the Pension Modernization program. Other strategic initiatives that will help improve our services to clients and the client experience include the implementation of an ESG Communication strategy, updating our communications to be more gender inclusive, and the introduction of a Social Justice Communications Policy.

|   | <b>2023 Business Plan Initiative</b>              | <b>Total 2023</b> | <b>External (Green)</b> | <b>Base Service Contract (Green)</b> | <b>Internal Resources</b> |
|---|---|-------------------|-------------------------|--------------------------------------|---------------------------|
| 1 | Voyager Program Governance                        | 1,660             | 490                     | 40                                   | 1,130                     |
| 2 | Voyager Package of Projects 1                     | 2,890             | 1,460                   | 180                                  | 1,250                     |
| 3 | Voyager Retirement & Financial Planning Tool      | 1,400             | 690                     | 40                                   | 670                       |
|   | <b>Pension Modernization – Sub-Total</b>          | <b>5,950</b>      | <b>2,640</b>            | <b>260</b>                           | <b>3,050</b>              |
| 4 | ESG Communication Strategy                        | 300               | 210                     | 0                                    | 90                        |
| 5 | Gender Inclusivity – Communications Updates (DEI) | 380               | 0                       | 40                                   | 340                       |
| 6 | Social Justice Communications Policy              | 120               | 50                      | 0                                    | 70                        |
|   | <b>Sub-Total</b>                                  | <b>6,750</b>      | <b>2,900</b>            | <b>300</b>                           | <b>3,550</b>              |



## 2. Risk Mitigation Initiatives (\$2,350)

There are several IT-driven requirements to maintain current technology including the completion of the move of our technology infrastructure to the cloud and other initiatives. This list also includes HR and Client Service driven enhancements required by the operations. We have kept this list to essential development that needs to occur in 2023.

|    | <b>2023 Business Plan Initiative</b>           | <b>Total 2023</b> | <b>External (Green)</b> | <b>Base Service Contract (Green)</b> | <b>Internal Resources</b> |
|----|--|-------------------|-------------------------|--------------------------------------|---------------------------|
| 1  | Job Classification System                      | 220               | 150                     | 0                                    | 70                        |
| 2  | Digital Workplace (includes Access Management) | 100               | 50                      | 0                                    | 50                        |
| 3  | Portal Redundancy                              | 370               | 60                      | 220                                  | 90                        |
| 4  | Network Assessment (200 King St)               | 70                | 50                      | 0                                    | 20                        |
| 5  | Active Directory (roles based and clean up)    | 110               | 70                      | 0                                    | 40                        |
| 6  | Wi-Fi Hardware Upgrade                         | 170               | 160                     | 0                                    | 10                        |
| 7  | Development/Operations Migration               | 60                | 30                      | 10                                   | 20                        |
| 8  | Testing Automation Support                     | 250               | 250                     | 0                                    | 0                         |
| 9  | Virtual Onboarding/eLearning                   | 320               | 250                     | 0                                    | 70                        |
| 10 | AMSP RFP 2026                                  | 40                | 0                       | 0                                    | 40                        |
| 11 | Death Registry Process Enhancements            | 160               | 0                       | 90                                   | 70                        |
| 12 | Public Cloud Strategy                          | 60                | 0                       | 0                                    | 60                        |
| 13 | Telephony RFP - 2024                           | 30                | 0                       | 0                                    | 30                        |
| 14 | Telephony RFP (upgrade)                        | 110               | 110                     | 0                                    | 0                         |
| 15 | Data Governance for Unstructured Data          | 280               | 130                     | 0                                    | 150                       |
|    | <b>Sub-Total</b>                               | <b>2,350</b>      | <b>1,310</b>            | <b>320</b>                           | <b>720</b>                |

### 3. Legislative and Compliance Initiatives (\$490)

This category includes initiatives to comply with legislation or government directives. For 2023 this includes (i) producing and delivering Annual Pension Statements (APS) to maintain compliance and (ii) similarly, to deliver on the annual Retired Member Statements (RMS).

|   | 2023 Business Plan Initiative | Total 2023 | External (Green) | Base Service Contract (Green) | Internal Resources |
|---|-------------------------------|------------|------------------|-------------------------------|--------------------|
| 1 | 2023 RMS                      | 50         | 0                | 10                            | 40                 |
| 2 | 2022 APS                      | 200        | 0                | 50                            | 150                |
| 3 | 2024 RMS                      | 160        | 0                | 40                            | 120                |
| 4 | 2023 APS                      | 80         | 0                | 10                            | 70                 |
|   | <b>Sub-Total</b>              | <b>490</b> | <b>0</b>         | <b>110</b>                    | <b>380</b>         |

### 4. Non-Recoverable Sponsor-Driven Initiatives for the PSPP (\$130)

We are moving forward on implementing post-retirement Insured Benefits Eligibility changes for ALOC and OCAA members. We will also be completing updates to our systems to reflect changes to the sub allowance process for OPS employees. These costs are not recoverable from the Sponsor.

|   | 2023 Business Plan Initiative                    | Total 2023 | External (Green) | Base Service Contract (Green) | Internal Resources |
|---|--|------------|------------------|-------------------------------|--------------------|
| 1 | ALOC/OCAA – Insured Benefits Eligibility Changes | 80         | 0                | 20                            | 60                 |
| 2 | Sub Allowance changes                            | 50         | 0                | 10                            | 40                 |
|   | <b>Sub-Total</b>                                 | <b>130</b> | <b>0</b>         | <b>30</b>                     | <b>100</b>         |

Note: for the purposes of presentation amounts have been rounded and as a result may be slightly different than the total indicated

## **2023 Budget Risks to Completing Business Plan Initiatives**

In developing our business plan and budget, we have selected the highest priority initiatives (Plan Sponsor initiatives, regulatory or other legislative requirements, and external events such as COVID-19 etc.) that would create a mandatory resource demand during the year. These risks could cause us to have to revise our business plan and budget intra-year.

Sources of possible unanticipated demands are listed below, although not exhaustive. Should they occur, they would be subjected to our gating process and result in re-prioritization of other projects or funds required to be spent that could be significantly more than budgeted.

1. Police Divestments – We have assumed some divestment work, but there are several municipal police forces in the Province which could still be transferred to the OPP. This creates material service demand, including actuarial services, to address the pension implications for affected personnel.
2. Other compliance or Plan Sponsor-driven requests. Over the past few years, we have seen an increase in court/regulatory and Plan Sponsor-driven changes that we must immediately address.
3. Pension Consolidations – While there are currently no known plan mergers for 2023, we continue to look for new growth opportunities to add members to the Plan.
4. Return to the workplace/hybrid work model – the business plan has included some activities related to a smooth return to a hybrid workplace scenario during 2023, but there continues to be uncertainty in the business community surrounding this.

## Appendix I: 3 Year Projected Expenditures 2023 – 2025

The following three-year projection builds upon the 2023 budget. We have factored inflationary increases for most expenses and no substantial complement increases in 2024 or 2025. 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) | 2023 <sup>1</sup> | 2024 <sup>6</sup> | 2025 <sup>6</sup> |
|--|-------------------|-------------------|-------------------|
| Staffing Costs <sup>2</sup>                  | 24,120            | 26,530            | 28,390            |
| Office Operations                            | 6,090             | 6,390             | 6,710             |
| Technology <sup>3</sup>                      | 8,950             | 9,850             | 10,840            |
| Professional Services                        | 1,710             | 1,800             | 1,890             |
| Depreciation <sup>4</sup>                    | 60                | 60                | 60                |
| Communication, Board & Audit                 | 1,220             | 1,280             | 1,340             |
| Initiatives <sup>5</sup>                     | 9,710             | 10,100            | 10,500            |
| <b>Total Operating Expenses</b>              | <b>51,860</b>     | <b>56,010</b>     | <b>59,730</b>     |
| Total Capital Expenditure <sup>7</sup>       | 80                | 80                | 80                |
| Estimated Staff Complement <sup>8</sup>      | 227               | 237               | 242               |

### Notes and Assumptions for 3 Year Projected Expenditures 2023-2025

1. The amounts for 2023 are taken from the 2023 Budget.
2. For 2024, we have estimated an increase of 10.0 % for staffing costs. For 2025, we have estimated an increase of 7%. This considers the grow-in of staff hires from the previous years and new complement added to support the base operations as well as the initiatives.
3. Technology costs are expected to increase by 10% for 2024 and 10% for 2025 as new services and licenses will continue to increase as we acquire new tools and systems through our modernization program. It is important to note that the tools we select through Pension Modernization will influence IT costs and costs may be higher if we acquire an all-in-one pension administration system versus acquiring a set of tools over time. Additionally, we expect inflation to impact these items.
4. Depreciation expectations to remain stable at 2023 levels, as no major asset additions are planned either on the technology platform or on the building/furniture.
5. Initiatives for 2024 and 2025 are expected to increase annually at 4% from the 2023 levels.
6. The other expenses are expected to have modest annual increases of 5%.
7. Capital Expenditures are expected to remain flat for 2024 and 2025.
8. Staff complement for 2023 is 227. We expect an increase of 10 staff positions for 2024 and five new positions for 2025 in keeping with our resource needs for the initiatives and operations.

## Appendix II: Defined Terms

In this Business Plan:

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

**BlackNorth Initiative** – a Toronto-based charity with a mission to end anti-Black systemic racism in all aspects of our lives through a business-first mindset

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

**Budget** – the budget contained in this Business Plan

**Business Plan** – this Ontario Pension Board Business Plan 2023-2025

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

**ERM** – 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

**ESG** – Environmental Social and Governance

**IAM** – Identify and Access Management

**IMCO** – the Investment Management Corporation of Ontario, commenced operations in July 2017

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

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

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

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

**PIPEDA** – The Personal Information Protection and Electronic Documents Act (PIPEDA) - Office of the Privacy Commissioner of Canada.

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

**PSPP (“the Plan”)** – Public Service Pension Plan, a defined benefit pension plan

**RCA** – Retirement Compensation Arrangement, replaced the Public Service Supplementary Plan on January 1, 2022. The RCA provides supplementary benefits for those members whose accrued pension from the PSPP exceeds the maximum allowed under the federal *Income Tax Act* (ITA)

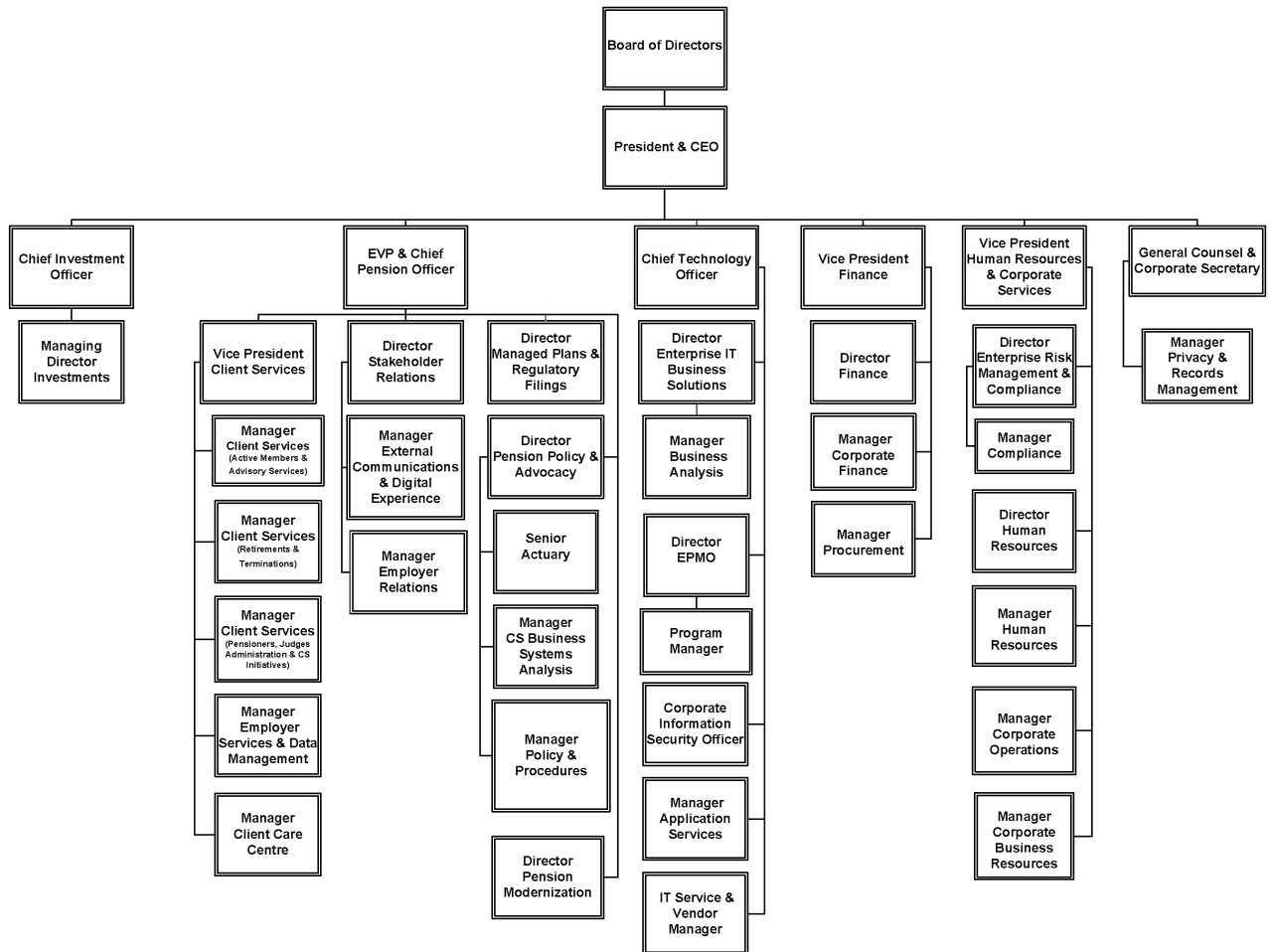
**SAA** – Strategic Asset Allocation, a long-term strategy that involves setting target allocations of the Plan’s asset mix with the purpose of achieving highest returns on investment to meet current and projected future pension benefits given the Plan’s risk tolerance and investment horizon

**SDLC** – Software Delivery Lifecycle

**TCFD** – Task Force on Climate Related Financial Disclosures.

**WCAG 2.0 Level AA** – a compliance level used for accessibility rules and regulations.

# Appendix III: Organizational Chart – Management Level



September 19, 2022