

Consolidated Clause in Policy and Finance Committee Report 7, which was considered by City Council on September 25, 26 and 27, 2006.

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**The Corporation of the City of York Employee Pension Plan,  
Actuarial Valuation for Funding Purposes  
as at December 31, 2005**

*City Council on September 25, 26 and 27, 2006, adopted this Clause without amendment.*

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**The Policy and Finance Committee recommends that City Council adopt the recommendation of the Administration Committee contained in the communication (September 6, 2006) from the Administration Committee:**

Recommendation:

The Administration Committee recommended to the Policy and Finance Committee that City Council adopt the staff recommendations in the Recommendations Section of the report (August 21, 2006) from the Treasurer.

Background:

The Administration Committee on September 5, 2006, considered the following:

- (i) report (August 21, 2006) from the Treasurer providing staff comments and recommendations regarding the "Report on the Actuarial Valuation for Funding Purposes as at December 31, 2005" for The Corporation of the City of York Employee Pension Plan.

Recommendations:

It is recommended that:

- (1) the 2005 Actuarial Report for The Corporation of the City of York Employee Pension Plan be received;
- (2) in satisfaction of its obligations under the *Pension Benefits Act* to eliminate the additional going-concern unfunded liability and the solvency deficiency of The Corporation of the City of York Employee Pension Plan as they were determined to exist at December 31, 2005, the City make the following additional special payments to the Plan:

- (a) \$57,008.40.00 on October 1, 2006, in satisfaction of the minimum accrued obligations (including interest) from January 1, 2006, to and including that date in connection with both the unfunded liability and the solvency deficiency determined as of January 1, 2006;
- (b) \$5,377.00 per month on account of such going-concern unfunded liability from November 1, 2006, to and including December 1, 2015; and
- (c) \$209.00 per month on account of such solvency deficiency from November 1, 2006, to and including December 1, 2010;

subject to earlier discontinuation of such monthly payments and/or, in the case of the unfunded liabilities, reduction, as Council may determine having regard to any subsequent actuarial valuation, if permitted under the Act;

- (3) the total 2006 payments in the amount of \$68,180.40 pursuant to Recommendation (2) above be made from the Non-Program Expenditure Budget, with funding from the Employee/Retiree Benefits Reserve Fund;
  - (4) the 2006 Non-Program Expenditure Budget be increased by \$68,180.40, offset by an equal contribution from the Employee/Retiree Benefits Reserve Fund for \$0 net impact on the 2006 Operating Budget to fund the 2006 payments;
  - (5) annual funding of \$67,032.00 for the years 2007 to 2010 and \$64,524.00 for the years 2011 to 2015 be included in the respective years' Non-Program Expenditure Budget submission;
  - (6) recommendation (5) be forwarded to the Budget Advisory Committee for its consideration during the 2007, Budget Process;
  - (7) this report be forwarded to the Policy and Finance Committee for consideration; and
  - (8) the appropriate City officials be authorized to take the necessary action to give effect to the foregoing recommendations; and
- (ii) communication (August 2, 2006) from the City of York Employee Pension Plan advising that the City of York Employee Pension Plan on August 2, 2006, recommended to the Administration Committee that City Council adopt the following recommendations contained in the Recommendations Section of the report (July 2006) from Anil Narale, Mercer Human Resource Consulting, that:
- (a) no post-retirement adjustment be made as at July 1, 2006; and
  - (b) the City contribute from January 1, 2006, at the rate of \$374,473.00 per month in respect of the unfunded liability and solvency deficiency, until revised by a subsequent valuation report.
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(Report dated August 21, 2006, addressed to the Administration Committee, from the Treasurer)

Purpose:

To provide staff comments and recommendations regarding the “Report on the Actuarial Valuation for Funding Purposes as at December 31, 2005” for The Corporation of the City of York Employee Pension Plan.

Financial Implications and Impact Statement:

The City currently makes special payments of \$368,887.00 per month with respect to existing solvency and going-concern deficiencies in the York Employee Pension Plan as required under the Ontario *Pension Benefits Act*. Additional unfunded liabilities and solvency deficiencies revealed in the December 31, 2005, valuation require these special payments to be increased to \$374,473.00 per month, an increase of \$5,586.00 per month effective January 1, 2006.

December 31, 2005 Valuation Report - Additional Funding Requirements

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Going-concern Funding	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524
Solvency Funding	\$2,508	\$2,508	\$2,508	\$2,508	\$2,508					
Total Required Annually	\$67,032	\$67,032	\$67,032	\$67,032	\$67,032	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524
Total Required Monthly	\$5,586	\$5,586	\$5,586	\$5,586	\$5,586	\$5,377	\$5,377	\$5,377	\$5,377	\$5,377

It is recommended that the additional payments totalling \$68,180.40 (12 X \$5,586 +\$1,148.40 interest) required for 2006 be made from the Non-Program Expenditure Budget, with funding provided from the Employee/Retiree Benefits Reserve Fund. Funding for future years’ payments: \$67,032.00 each year from 2007 to 2010 and \$64,524.00 each year from 2011 to 2015 will be included in the respective years’ Non-Program Budget submission, resulting in a budget pressure of \$67,032.00 for 2007. The existing special payments of \$368,887.00 per month (\$4,426,644.00 per year) are provided in the 2006 Non-Program Budget.

The chart below illustrates the total funding currently in place for the York Pension Plan and includes the additional funding requirements noted above.

York Pension Plan Funding Requirements – January 1, 2006 – December 31, 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Going-concern Funding										
2000 Valuation	\$231,492	\$231,492	\$231,492							
2001 Valuation	\$278,736	\$278,736	\$278,736	\$278,736	\$195,132	\$195,132				
2002 Valuation	\$195,132	\$195,132	\$195,132	\$195,132	\$195,132	\$195,132				
2003 Valuation	\$1,162,452	\$1,162,452	\$1,162,452	\$1,162,452	\$1,162,452	\$1,162,452	\$1,162,452			
2004 Valuation	\$349,308	\$349,308	\$349,308	\$349,308	\$349,308	\$349,308	\$349,308	\$349,308		
2005 Valuation	\$349,320	\$349,320	\$349,320	\$349,320	\$349,320	\$349,320	\$349,320	\$349,320	\$349,320	
2005 Valuation*	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524	\$64,524
Solvency Funding										
2002 Valuation	\$520,200									
2003 Valuation	\$235,032	\$235,032								
2004 Valuation	\$394,848	\$394,848	\$394,848							
2005 Valuation	\$710,124	\$710,124	\$710,124	\$710,124						
2005 Valuation*	\$2,508	\$2,508	\$2,508	\$2,508	\$2,508					
Total Required	\$4,493,676	\$3,973,476	\$3,738,444	\$3,112,104	\$2,401,980	\$2,260,104	\$1,925,604	\$763,152	\$413,844	\$64,524

\*The valuation date has been changed to December 31 from January 1

The current valuation is for the period January 1, 2005 to December 31, 2005

The Deputy City Manager and Chief Financial Officer has reviewed this report and concurs with the financial impact statement.

Recommendations:

It is recommended that:

- (1) the 2005 Actuarial Report for The Corporation of the City of York Employee Pension Plan be received;
- (2) in satisfaction of its obligations under the *Pension Benefits Act* to eliminate the additional going-concern unfunded liability and the solvency deficiency of The Corporation of the City of York Employee Pension Plan as they were determined to exist at December 31, 2005, the City make the following additional special payments to the Plan:
  - (a) \$57,008.40 on October 1, 2006, in satisfaction of the minimum accrued obligations (including interest) from January 1, 2006, to and including that date in connection with both the unfunded liability and the solvency deficiency determined as of January 1, 2006;
  - (b) \$5,377.00 per month on account of such going-concern unfunded liability from November 1, 2006, to and including December 1, 2015; and,
  - (c) \$209.00 per month on account of such solvency deficiency from November 1, 2006, to and including December 1, 2010,subject to earlier discontinuation of such monthly payments and/or, in the case of the unfunded liabilities, reduction, as Council may determine having regard to any subsequent actuarial valuation, if permitted under the Act;
- (3) the total 2006 payments in the amount of \$68,180.40 pursuant to Recommendation (2) above be made from the Non-Program Expenditure Budget, with funding from the Employee/Retiree Benefits Reserve Fund;
- (4) the 2006 Non-Program Expenditure Budget be increased by \$68,180.40, offset by an equal contribution from the Employee/Retiree Benefits Reserve Fund for \$0 net impact on the 2006 Operating Budget to fund the 2006 payments;
- (5) annual funding of \$67,032.00 for the years 2007 to 2010 and \$64,524.00 for the years 2011 to 2015 be included in the respective years' Non-Program Expenditure Budget submission;
- (6) recommendation (5) be forwarded to the Budget Advisory Committee for its consideration during the 2007 Budget Process;

- (7) this report be forwarded to the Policy and Finance Committee for consideration; and
- (8) the appropriate City officials be authorized to take the necessary action to give effect to the foregoing recommendations.

Background:

The Corporation of the City of York Employee Pension Plan (the Plan), whose terms are set forth in Schedule "A" to By-law No. 3349-96 of the former City of York as amended, is one of five pre-OMERS plans administered by the City of Toronto. It covers one active employee (who is disabled), 190 retired employees and 111 survivor pensioners.

The Plan provides for automatic yearly adjustments in pensions if its average investment returns over the preceding four years have exceeded the level required to match its pension liabilities, but because of poor market performance, no such adjustments have been payable since 2000.

The Plan's Actuary, Mercer Human Resources Consulting, conducts an actuarial valuation of the Plan's assets and liabilities. Included in the agenda material accompanying this report is a copy of the Actuary's "Report on the Actuarial Valuation for Funding Purposes as at December 31, 2005," with respect to the Plan. At its meeting of August 2, 2006, the York Employees' Pension and Benefit Committee (the YEPB Committee), which is the Plan's administrator, resolved that it be recommended to the City's Administration Committee that the Report be adopted, that the City be requested to begin making the required special payments described therein and that the Treasurer report to the Administration Committee accordingly.

The legislation requires that each pension plan be valued from two separate points of view, on a going-concern basis (under which it is assumed that the plan will continue to operate) and on a solvency basis (as if the plan had been wound up on the valuation date).

To provide a more realistic long-term view of the Plan, the Actuary has opted, when performing the going-concern valuation, to smooth out the effects of any unusually large differential in rates of return in any year by averaging the value of the assets on a rolling four-year basis before determining the existence of a surplus or deficit. At December 31, 2005, the actuarial assets of the Plan stood at \$53.4 million and the actuarial liabilities at \$68.4 million. The resulting going-concern actuarial deficiency of \$15.0 million was slightly lower than the actuarial deficiency of \$16.3 million existing at the beginning of 2005, the difference being due primarily to a change in actuarial assumptions and poor investment returns over the four-year averaging period offset by the special payments of \$4.8 million made by the City in 2005 on account of unfunded liabilities determined and reported in the five years prior to 2005. It should be noted that accrued but unrecognized net market gains of \$2.8 million (\$200,000.00 loss in 2004) will be taken into account as a positive component over the next three years in the rolling-average going-concern calculations.

**Going-Concern Unfunded Liabilities:** The Actuary has determined the unfunded liability at December 31, 2005, to be \$14.99 million dollars. The present value of the existing special payments is \$14.5 million as at the same date, creating a shortfall of \$499,000.00, for which additional special payments must be established. The Actuary has recommended an amortization

schedule over 10 years with funding payments of \$64,524.00 per annum in monthly instalments of \$5,377.00 from January 1, 2006 to December 1, 2015. If a subsequent going-concern valuation shows a smaller unfunded liability than the present value of the scheduled payments, the scheduled payments may be terminated earlier or reduced, or a combination of the two may be applied.

**Solvency Deficiencies:** At the end of 2005, the Plan had a solvency deficiency of \$4.613 million, being the amount by which the net solvency liabilities of \$69.0 million, exceeded the net solvency assets of \$64.4 million. In comparison, at the end of 2004, there was a solvency deficiency of \$6.1 million. The improvement in the solvency position since the last valuation was due primarily to contributions made during the year 2005 and performance of the Plan's assets during the most recent four year period offset by the change in the discount interest rate (from 5.875 percent to 5.75 percent per annum).

Four streams of special payments by the City totalling \$155,017.00 per month have been established to eliminate existing \$4.602 million solvency deficiencies determined in the years 2001-2004. At December 31, 2005, the solvency deficiency has increased by \$11,000.00 to \$4.613 million requiring that the payment schedule be increased by \$209.00 per month until December 2010.

By the time of consideration of this report by Council, the first nine months of 2006, will have already passed without any payment. Therefore, the additional instalment due on October 1, 2006, must be increased by the nine missed payments, together with interest which the Actuary has advised will amount to \$1,148.40. The total due on that date will therefore be \$57,008.40.

#### Comments:

Plan Investments in the year 2005, returned 10.61 percent net of investment management expenses. This was the third year that the plan has experienced positive returns. This rate is lower than that of OMERS, whose investments returned 16 percent however it is consistent with other City sponsored plans. Unlike OMERS who is able to make investments in infrastructure, real estate and private equity placements, these are either unavailable to or inappropriate for the Plan because of its smaller size, lower risk tolerance and the closed nature of the Plan. The new asset manager hired by the York Employees' Pension and Benefit Committee (the YEPB Committee) in December 2004 has provided returns consistent with other balanced portfolios of similar size.

The volatile investment market from 1999 to 2000 has had a significant impact upon pension-fund assets and those of the York Plan have suffered greatly from the combined effect of low interest rates and low equity-market returns. Over the last two years we have seen a return to positive returns in the investment markets but the plan's liabilities still remain high due to the continued low interest rates.

The set of payments of \$43,350.00 per month for solvency deficiencies arising from the 2001 actuarial valuation will be completed in December 2006. The two new sets of payments for the 2005 unfunded liability and the solvency deficiency will bring the City's monthly instalments to \$374,473.00 effective January 1, 2006 reducing to \$331,123.00 on January 1, 2007, compared to

\$467,839.00 per month from January to April 2005, and \$368,887.00 per month from May to December 2005. A Summary outlining the required payments by years is included in the Financial Implications section of this report.

Accordingly, neither the Actuary nor the YEPB Committee recommended cost-of-living increases for pensioners for 2006.

Conclusions:

The 2005 valuation results of the York Pension Plan highlight the financial position and results of operations of the Plan for the year ended December 31, 2005, and the Valuation Report appropriately does not recommend any cost-of-living increase for pensioners for 2006.

The Plan is experiencing solvency-deficiency problems like many other defined-benefit pension plans in Ontario. The City is required by law to commence immediate special payments to the Plan toward elimination of the additional unfunded liability and solvency deficiency determined as at December 31, 2005.

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Attachments:

The Corporation of the City of York Employee Pension Plan – Report on the Actuarial Valuation for Funding Purposes as at December 31, 2005

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(Communication dated August 2, 2006, addressed to the  
Administration Committee from the  
City of York Employee Pension Plan)

Recommendation:

The City of York Employee Pension Plan Committee recommends to the Administration Committee that City Council adopt the following recommendations contained in the Recommendation Section of the report (July 2006) from Anil Narale, Mercer Human Resource Consulting, that:



- (a) no post-retirement adjustment be made as at July 1, 2006; and
- (b) the City contribute from January 1, 2006, at the rate of \$374,473.00 per month in respect of the unfunded liability and solvency deficiency, until revised by a subsequent valuation report.

Action taken by the Committee:

The City of York Employee Pension Plan Committee requested the Deputy City Manager and Chief Financial Officer to:

- (1) report to the Administration Committee on this matter at its next meeting on Tuesday, September 5, 2006;
- (2) forward a communication to all pensioners of the City of York Employee Pension Plan stating the reasons why they will not receive a cost of living increase for the year 2006; and
- (3) report on the possibility of granting pensioners an increase in view of the fact that they have not received an increase in the last five years.

Background:

The City of York Employee Pension Plan Committee on Wednesday, August 2, 2006, considered the report (July 2006) from Anil Narale, Mercer Human Resource Consulting, regarding the Actuarial Valuation for Funding Purposes as at December 31, 2005, for the City of York Employee Pension Plan, and recommending that the Committee approve the report for submission to City Council so that the report can be filed with the Canada Revenue Agency and the Financial Services Commission of Ontario.

Anil Narale, Mercer Human Resource Consulting, addressed the Committee.

(A copy of the July 2006, Corporation of the City of York Employee Pension Plan - Report on the Actuarial Valuation for Funding Purposes as at December 31, 2005, was forwarded to all Members of Council with the September 18, 2006, agenda of the Policy and Finance Committee and a copy is also on file in the office of the City Clerk, City Hall).