TORONTO

STAFF REPORT
INFORMATION ONLY

Toronto Civic Employees' Pension & Benefit Fund - Actuarial Report as at December 31, 2006

Date:	May 25, 2007
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2007\Internal Services\ppeb\gm07003ppeb (AFS# 1632)

SUMMARY

This report will present the 2006 Actuarial Valuation Report on the Toronto Civic Employees' Pension & Benefit Fund along with information regarding the increase in benefits for pensioners payable as of January 1, 2007 under the cost-of-living provisions of the Fund's governing by-law, and staff comments.

The 2006 Actuarial Valuation results of the Toronto Civic Employee's Pension & Benefit Fund highlight the continued strong financial position of the Plan. The Fund's Excess Interest Indexing Provision provides for an increase in pensions by the full 2.04% increase in the Consumer Price Index effective January 1, 2007. This staff report along with the 2006 Actuarial Valuation is therefore being submitted for information.

Financial Impact

As of January 1, 2007, the pension plan had an actuarial surplus of $156.6 million. This surplus will be used to fund the 2007 cost-of-living increase of 2.04% at a cost of $5.84 million on a going-concern basis and $6.77 million on a solvency basis.

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

ISSUE BACKGROUND

The Toronto Civic Employees' Pension & Benefit Fund (the Plan) is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers two active employees, 1,025 retired members and 722 survivor pensions and its administrator is The Toronto Civic Employees' Pension Committee (the Pension Committee).

The Plan's Actuary, Buck Consultants Ltd., performs an annual valuation of the Plan's assets and liabilities and recently submitted to the Pension Committee, its actuarial valuation report for 2006. The report shows that at December 31, 2006, the Plan had actuarial assets of $443.7 million, liabilities of $287.1 million and a going-concern surplus of $156.6 million.

The Actuary has estimated that the cost of providing full future indexing is $63.4 million. If such indexing were implemented and the cost charged against that surplus, the remaining $93.2 million balance of the surplus would provide a cushion against market volatility and a source of funding for minor benefit improvements.

The Actuary also completed a solvency valuation comparing the Plan's assets at market value with the cost to satisfy the Plan's obligation by purchasing annuities. At December 31, 2006, there was an excess of solvency assets over solvency liabilities of $167.8 million.

By-law No. 380-74 of the former City of Toronto as amended governs the Plan and provides for automatic annual cost-of-living adjustments for pension benefits in payment up to a maximum of the increase in the Consumer Price Index (CPI), to the extent not greater than the "excess" investment rate of return (i.e., in excess of the actuarial rate of return set by the Actuary as necessary to ensure the Plan's solvency), subject to confirmation from the Actuary "that there are sufficient surpluses available".

For the year 2006, the investment rate of return smoothed out over a five year period was 15.23%. The Actuary's required rate of return was 6.5% resulting in an "excess" investment rate of return of 8.20%. Under the terms of the by-law, the increase for any year is limited to the lesser of the excess return and the increase in the average annual CPI which was 2.04% for 2006. The Actuary has estimated the cost of the increase to be $5.84 million on a going-concern basis and $6.77 million on a solvency basis and advised that there are sufficient surpluses available to fund the increase.

The Pension Committee at its meeting held April 17, 2007, approved the Actuary's report and requested it be forwarded to Council for their information

COMMENTS

The Plan, through a combination of prudent financial management, investment diversification and strong investment returns, has succeeded in building sufficient assets to meet all its current liabilities to pensioners. As noted above, the Plan remains well funded and the Actuary has confirmed there are sufficient surpluses available to provide for the 2.04% cost-of-living increase generated by the plan's excess interest indexing provision.

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SIGNATURE

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ATTACHMENTS

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