TORONTO

STAFF REPORT
INFORMATION ONLY

Toronto Fire Department Superannuation & 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\gm07004ppeb (AFS#1633)

SUMMARY

This report will present the 2006 Actuarial Valuation Report on the Toronto Fire Department Superannuation & 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 Fire Department Superannuation & Benefit Fund highlight the continued strong financial position of the Fund. 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 $57.3 million. This surplus will be used to fund the 2006 cost-of-living increase of 2.04% at a cost of $5.52 million on a going concern basis and $6.50 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 Fire Department Superannuation and Benefit Fund (the Plan) is one of five pre-OMERS pension plans sponsored by the City of Toronto. As at December 31, 2006 there were 671 retired members and 338 surviving spouses. There are no longer any active employees in the plan. The Plan's administrator is The Toronto Fire Department Superannuation and Benefit Fund Committee (the Benefit Fund Committee).

The Plan's Actuary, Buck Consultants Ltd., performs an annual actuarial valuation of the Plan's assets and liabilities and recently submitted to the Benefit Fund Committee, the Actuarial Valuation Report for 2006. The report indicates that at December 31, 2006, the Plan had actuarial assets of $328.0 million, liabilities of $270.7 million and a resulting going-concern surplus of $57.3 million. The Actuary has estimated that the cost of providing full future indexing is $69.7 million. While the surplus is not sufficient to pre-fund full future inflation protection, the plan remains in very good shape with sufficient surplus to fund an increase for 2006 and maintain an adequate cushion against market volatility.

The Actuary also completed a solvency valuation comparing the plan's assets at market value with the cost to satisfy the Plan's obligations by purchasing annuities. At December 31, 2006 there was an excess of solvency assets over solvency liabilities of $43.7 million.

By-law No. 10649 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 Plan's "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 9.28% which exceeded the Actuary's required rate of return of 6.5%. This generates an excess investment rate of return of 2.61%. Under the terms of the by-law, the increase for any year is capped at the lesser of the excess return and the increase in the average annual CPI (2.04%). The Actuary has estimated the cost of the 2.04% increase to be $5.52 million on a going-concern basis and $6.50 million on a solvency basis and confirmed that there are sufficient surpluses available to fund the increase.

The Benefit Fund Committee at its regular meeting held April 16, 2007, approved the 2006 Actuarial Valuation report and requested that it be forwarded to Council for their information.

COMMENTS

The Plan, through a combination of prudent financial management, investment diversification and sound 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

2006 Actuarial Report for the Toronto Fire Department Superannuation & Benefit Fund