



STAFF REPORT ACTION REQUIRED

Metropolitan Toronto Police 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\gm07002ppeb (AFS#3086)

SUMMARY

This report will present the Actuarial Valuation for Funding Purposes Report as at December 31, 2006 for the Metropolitan Toronto Police Benefit Fund along with a recommendation regarding the continuation of special payments to the Fund with respect to solvency and going-concern deficiencies.

The 2006 valuation results of the Fund highlight the financial position and the results of its operations for the year ended December 31, 2006 and the Valuation Report appropriately does not recommend any cost-of-living increase for pensioners for 2007.

RECOMMENDATIONS

The Treasurer recommends that:

1. The “Report on the Actuarial Valuation for Funding Purposes as at December 31, 2006” prepared by Mercer Human Resource Consulting with respect to the Metropolitan Toronto Police Benefit Fund, be received.

2. The existing authorization for the City to make special annual payments of \$4,903,200 until 2014, and \$4,677,600 in 2015 to the Police Benefit Fund, to eliminate the fund's going-concern liability be discontinued.
3. The existing authorization for the City to make special annual payments of \$11,400,000 in each of the years 2007 and 2008, \$10,708,800 in 2009 and \$5,768,400 in 2010 to the Police Benefit Fund to eliminate the fund's solvency deficiency determined as of December 31, 2005 be modified by reducing the payments to \$7,339,200 for each of the years 2007 and 2008, \$6,648,000 in 2009, \$1,707,600 in 2010 and adding \$842,400 in 2011, subject to discontinuation as Council may determine, if any subsequent actuarial valuation indicates the existence of sufficient excess assets in the Police Benefit Fund;
4. The City reaffirm the designation of the \$7,354,800 excess special payments made in 2005 and 2006 to be a contribution credit to be applied equally against the 2007, 2008 and 2009 funding requirements.
5. This report be forwarded to the Executive Committee for consideration; and,
6. The appropriate City officials be authorized to take the necessary action to give effect to the foregoing recommendations.

Financial Impact

The City currently makes special payments of \$8,948,400 per year with respect to existing solvency and going-concern deficiencies in the Metropolitan Toronto Police Benefit Fund as required under the *Ontario Pension & Benefits Act*. In the 2006 Valuation, the going-concern deficiency has been eliminated and the solvency deficiency reduced. A credit of \$2,451,600 is to be applied to the payments for the years 2007 to 2009, resulting in special payments in the amount of \$4,887,600 for 2007. The chart below illustrates the revised funding required for the Metropolitan Toronto Police Benefit Fund until 2011 as a result of this most recent valuation.

Metropolitan Toronto Police Benefit Fund Funding Requirements January 1, 2007 - December 31, 2011

	2007	2008	2009	2010	2011
Solvency Funding (amortized over 5 years)					
2003 Valuation	\$691,200	\$691,200			
2004 Valuation	\$4,940,400	\$4,940,400	\$4,940,400		
2005 Valuation	\$865,200	\$865,200	\$865,200	\$865,200	
2006 Valuation	\$842,400	\$842,400	\$842,400	\$842,400	\$842,400
Subtotal	\$7,339,200	\$7,339,200	\$6,648,000	\$1,707,600	\$842,400
Less Credit	\$2,451,600	\$2,451,600	\$2,451,600		
Total Required	\$4,887,600	\$4,887,600	\$4,196,400	\$1,707,600	\$842,400

The special payments in the amount of \$4,887,000 for 2007 have been provided for in the 2007 Non Program Expenditure Budget.

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

ISSUE BACKGROUND

The Metropolitan Toronto Police Benefit Fund, whose terms are set forth in By-law No.181-81 of the former Metropolitan Toronto Corporation as amended, is one of five pre-OMERS pension plans for which the City is sponsor. It covers 15 officer members, 1,544 retired officers and 654 survivor pensioners. The Plan's administrator is the Metropolitan Toronto Police Benefit Fund Board of Trustees ("the Board").

The Fund's Actuary, Mercer Human Resources Consulting, conducts an annual actuarial valuation of the Fund's assets and liabilities and recently submitted to the Board, its actuarial valuation report for 2006. The report shows that at December 31, 2006, the Plan had actuarial assets of \$666.8 million, liabilities of \$653.2 million and a going-concern excess of \$13.6 million whereas there was a going-concern unfunded liability of \$37.83 million at the end of the previous year (as there had been at the end of the year before that, in the amount of \$1.7 million). As a result, the two 10 year streams of payments that were established in 2005 and 2006 to eliminate those two unfunded liabilities, on account of which the City paid \$4.07 million to the Fund in 2006, can be discontinued as of the end of that year.

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 a solvency deficiency of \$22.0 million.

The improvement in the solvency position since the last valuation was due primarily to the result of gains from the change in the asset smoothing method and data update and the better than expected performance of the assets on the actuarial value basis.

Although better than expected investment performance led to an increase in the Fund's assets, that increase was not quite enough to compensate for the discontinuation of the above described streams of special payments on account of going-concern liabilities, which would have had a present value of about \$22 million for solvency-calculation purposes at the beginning of 2007. Accordingly, there was an unamortized solvency deficiency of \$3.736 million at the end of 2006, which the City, as plan sponsor, is required to eliminate by commencing another stream of special payments to the Fund. The actuary has recommended that the stream be spread over five years at an annual rate of \$842,400 (\$70,200 per month).

Although the previously established solvency deficiency streams will continue, the cessation of the going-concern payments will mean that the City's annual special payments will (before application of the credit discussed below) drop from \$15,459,600 to \$7,339,200, decreasing to

\$6,647,800 in 2009, \$1,707,360 in 2010 and \$842,160 in 2011, the final year (assuming no post-2006 worsening of the Fund's solvency position).

The staff report adopted by Council at its meeting held on September 25, 26, 27, 28, 2006, directed that the credit amount of \$7,354,800 shown in the 2005 Valuation Report be allocated over the years 2007, 2008 and 2009. This allocation will reduce the total 2007 special payments to be made by the City from \$7,339,200 to \$4,887,600 (\$7,339,200-\$2,451,600).

COMMENTS

The 2006 Valuation Report of the Plan highlight the financial position and operation of the Plan for the year ended December 31, 2006. The Plan is no longer in a going-concern deficit but a solvency deficiency remains which requires special funding from the City. The Board, at its meeting on April 18, 2007, approved the recommendation of the actuary that no cost-of-living increase be provided to pensioners in 2007 and that the City continue to make special payments to eliminate the solvency deficiency.

CONTACT

Ivana Zanardo
Director, Pension, Payroll & Employee Benefits
Tel: (416) 397-4143
Fax: (416) 397-0835
izanardo@toronto.ca

SIGNATURE

Cam Weldon
Treasurer

ATTACHMENTS

2006 Actuarial Report for the Metropolitan Toronto Police Benefit Fund