

**Toronto Civic Employees' Pension & Benefit Fund –
Increase in Pensioner Benefits - Non-retroactive
Adjustment for Full CPI Increases 1989-1993**

Date:	April 14, 2008
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2008\Internal Services\ppeb\gm08001ppeb (AFS#7413)

SUMMARY

This report recommends a one-time increase in benefits for eligible pensioners of the Toronto Civic Employees' Pension & Benefit Fund in receipt of payments on January 1, 2008, to bring them up non-retroactively to the levels which would then have been in effect if the cost-of-living supplements for the years 1989 to 1993 had matched the increases in the Consumer Price Index (CPI).

The preliminary 2007 Actuarial Valuation results for the Fund presented to the Toronto Civic Employees' Pension Committee in February 2008 highlighted its continued strong financial position. The actuary has reported to the Committee the cost of the recommended increase to be approximately \$10.5 million. It is to be paid from the Fund's surplus which the Valuation indicated was \$164.4 million as at December 31, 2007.

RECOMMENDATIONS

The Treasurer recommends that:

1. Effective January 1, 2008, the benefits payable to eligible pensioners of the Toronto Civic Employees' Pension & Benefit Fund be increased non-retroactively to reflect 100% CPI increases for the years 1989-1993 inclusive.

2. The estimated cost of \$10.5 million be paid from the Fund's surplus which had a balance of \$164.4 million as at December 31, 2007.
3. By-Law No. 380-74 of the former City of Toronto governing the Toronto Civic Employees' Pension & Benefit Fund as amended to date be further amended accordingly and authority be granted to introduce the necessary bill in Council; and,
4. The appropriate City officials be authorized to take the necessary action to give effect to the foregoing recommendations.

Financial Impact

The estimated cost of the recommended improvement is approximately \$10.5 million and is to be paid from the Fund's surplus. That surplus balance was \$164.4 million as at December 31, 2007 and there will be no cost to the City.

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

ISSUE BACKGROUND

The Toronto Civic Employees' Pension & Benefit Fund is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers one active employee, 954 retired members and 702 survivor pensions and its administrator is The Toronto Civic Employees' Pension Committee (the Pension Committee).

The Fund's Actuary, Buck Consultants Ltd., performs an annual valuation of the assets and liabilities and recently submitted to the Pension Committee a preliminary actuarial valuation report for 2007. The report shows that at December 31, 2007, the Fund had actuarial assets of \$441.7 million, liabilities of \$277.4 million and a going concern surplus of \$164.4 million.

At its meeting of February 21, 2008, the Committee received a report from the Actuary based on an earlier request of providing a one-time increase for pensioners. This increase would be provided to certain retired members and spouses effective January 1, 2008 and is related to past years where 100% of CPI was not granted.

By-law No. 380-74 of the former City of Toronto (as amended) governs the Fund and ever since 1997 has contained a formula 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), subject to certain restrictions -- the Actuary must confirm that there are "sufficient surpluses" available and the Fund's investment rate of return for the prior year must exceed the actuarial rate of return set by the Actuary as necessary to ensure the Fund's solvency. For the years 2003 to 2005, although the previous year's investment rate of return in each case was insufficient to provide for full matching of the CPI

increase under the formula, Council authorized full matching on an *ad hoc* basis in view of the Fund's large surplus.

From 1986 to 1996, it was the former City's policy to make an annual *ad hoc* cost-of-living adjustment for pensioners to match at least 50% of any CPI increase (financed by the Fund to the extent that its assets were not required for existing liabilities, and by the City as to any shortfall) and up to 100% if no City financing were required. As a result of that policy, there were five years during that period, 1989 to 1993 inclusive, in which pensioner adjustments were less than 100% of the CPI increase, ranging from a low of about 52% to a high of 95%.

COMMENTS

The recommended *ad hoc* increase is to be payable only to pensioners in receipt of benefits as of January 1, 2008, at levels lower than what they would have been if there had been full matching of the CPI increases during the years 1989 to 1993.

The Fund, 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 well as provide full future indexing. The Committee has recommended that Council implement the one-time improvement. There is sufficient surplus available in the Fund to provide for this increase.

The total actuary-estimated cost for this recommended increase is \$10.5 million, which would reduce the Fund's surplus as at December 31, 2007 from \$164.4 million to \$153.9 million.

CONTACT

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SIGNATURE

Cam Weldon
Treasurer