



STAFF REPORT ACTION REQUIRED

Metropolitan Toronto Police Benefit Fund Retirement Compensation Arrangement (RCA)

Date:	May 5, 2008
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2008\Internal Services\ppeb\gm08002ppeb (AFS#6797)

SUMMARY

This report seeks authority to amend the by-law governing the Retirement Compensation Arrangement (RCA) for the Metropolitan Toronto Police Benefit Fund so as to remove the requirement that the City must take immediate steps to eliminate any periodically-determined deficiency in the RCA's funding (i.e., its inadequacy to cover all eventual payments, even though there may be enough to cover payments for some considerable time into the future) as if it were a pension plan, and to adopt a "pay-as-you-go" approach as the most prudent and cost-effective way of providing the required top-up payments if the RCA ever nears exhaustion.

RECOMMENDATIONS

The Treasurer recommends that:

1. By-law No. 18-97 governing the Police Benefit Fund RCA be amended to delete the requirement that the RCA be entirely advance-funded as if it were a pension plan.
2. Any future inadequacy in the Police Benefit Fund RCA be dealt with on a pay-as-you-go basis.
3. Authority be granted for introduction of the appropriate Bill in Council to implement Recommendation (1).
4. City staff be authorized to take all necessary steps to implement Recommendations (1) to (3).

Financial Impact

There are no financial implications arising from this report. The Metropolitan Toronto Police Benefit Fund RCA has assets valued at \$1,047,000 and funding liabilities of \$1,195,000 as at December 31, 2006. The recommended change in the by-law would mean that further funding for the RCA would not be required this year and will not need to be addressed until the existing assets can no longer make the top-up payments.

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

ISSUE BACKGROUND

In 1992, the Federal government introduced changes to the Income Tax Act which capped the pension benefits which could be accrued in a tax sheltered registered pension plan to \$1,722.22 per year of service. This impacted employees earning in excess of \$92,000 who until this amendment, had earned pensions on their full income. In order to provide retirement benefits on employees earnings in excess of \$92,000, a number of options were explored. The preferred option was a Retirement Compensation Arrangement (RCA), which is a funding vehicle permitted under the Income Tax Act, because the employee and employer contributions made to an RCA are tax deductible similar to those made to a Registered Pension Plan. The contributions to fund benefits in the RCA and investment earnings of the accumulated funds are subject to a 50% refundable tax. RCAs are administered by an independent Trustee who is responsible for remittances, payments and tax reclaims when benefits are paid out.

In late 1992, the OMERS Act and Regulation was amended to incorporate an RCA into the OMERS plan in order to provide retirement income on full earnings for members of the OMERS plan. To institute a similar program for members of the Metropolitan Toronto Pension Plan and the Metropolitan Toronto Police Benefit Fund, the former Metropolitan Toronto Council adopted the recommendations of the Commissioner of Finance and Treasurer in his report of June 2, 1995 to set up an RCA administered by the Board of Trustees of the Metropolitan Toronto Pension Plan and The Metropolitan Toronto Police Benefit Fund. The establishment of an RCA was required in order to fulfill the commitment made to employees to provide retirement income based on full earnings, by providing “top-ups” to the pension plan benefits.

The RCAs were to be funded by employee contributions and the employer matching share to the respective pension plan and the payment of these into the RCA. Any deficiency would be the obligation of the employers as is the case with the Plan and the Fund themselves.

At the request of the Board of Trustees of the Metropolitan Toronto Police Benefit Fund, City Council authorized a full contribution holiday as of January 1, 1999. A contribution holiday was also approved for the Metropolitan Toronto Pension Plan.

The result of the contribution holiday was that no funds were available for re-direction into the RCA and the Police RCA became deficient (the other RCA had not been created). The matching employer contributions that would normally have been paid into the pension plans during the contribution holiday were diverted into the City's Employee Benefit Reserve Fund.

At its meeting of October 29, 30, 31, 2002, City Council adopted a report which authorized payments to be made into the RCAs from the Employee Benefit Reserve Fund in order to meet the pension benefit payments.

At its meeting of September 25, 26, 27, 2006, City Council adopted a report from the Treasurer which authorized the repeal of the by-law providing for the Metropolitan Toronto Pension Plan RCA for reasons of cost efficiency, and authorized the making of the top-up payments for that Plan directly by the City of Toronto.

COMMENTS

The actuary, as requested by the Trustees of the Metropolitan Toronto Police Benefit Fund RCA for the purposes of compliance with the RCA by-law, has completed an actuarial valuation of the RCA's funds. The valuation prepared as at December 31, 2006 shows a solvency excess of \$152,700 and a funding deficiency of \$66,300 after making a contribution of \$80,500 to the RCA with respect to the benefit payments made in the past to the Metropolitan Toronto Pensioners. The current RCA By-law would require the City to fund this deficiency, however, the actuary has confirmed that the monies currently in the RCA are sufficient to make the appropriate RCA payments for the next 15 to 20 years.

It is recommended that the RCA by-law be amended to delete the requirement for the City to fund the RCA on the same basis as for a pension plan.

CONTACT

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SIGNATURE

Cam Weldon
Treasurer