



STAFF REPORT ACTION REQUIRED

Metropolitan Toronto Police Benefit Fund – Actuarial Report as at December 31, 2007

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| Date: | May 16, 2008 |
| To: | Government Management Committee |
| From: | Treasurer |
| Wards: | All |
| Reference Number: | P:\2008\Internal Services\ppeb\gm08006ppeb (AFS#7080) |

SUMMARY

This report will present the Actuarial Valuation as at December 31, 2007 for the Metropolitan Toronto Police Benefit Fund along with a recommendation regarding the continuation of special payments to the Fund with respect to the solvency deficiency.

The 2007 valuation results of the Fund highlight the financial position and the results of its operations for the year ended December 31, 2007 and the Valuation Report appropriately does not recommend any cost-of-living increase for pensioners for 2008.

RECOMMENDATIONS

The Treasurer recommends that:

1. The “Report on the Actuarial Valuation for Funding Purposes as at December 31, 2007” 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 \$4,887,600 in year 2008, \$4,196,400 in 2009, \$1,707,600 in 2010 and \$842,400 in 2011 to eliminate the fund’s solvency deficiency as at December 31, 2006 be modified by reducing the payments to \$2,416,200 in 2008 and \$772,200 in 2009.
3. The City allocate the remaining credit balance of \$4,923,000 as a result of excess special payments made in 2005 and 2006 to be a contribution credit to be applied to reduce the 2008 payment to \$2,416,200.

4. This report be forwarded to Executive Committee for consideration; and,
5. The appropriate City officials be authorized to take the necessary action to give effect to the foregoing recommendations.

Financial Impact

As a result of the 2006 Actuarial Valuation, the City was required to make special payments of \$7,339,200 in each of 2007 and 2008 with payments reducing to \$842,200 in 2011 with respect to the existing solvency deficiency in the Metropolitan Toronto Police Benefit Fund as required under the *Ontario Pension & Benefits Act*. In the 2007 Valuation, the going-concern deficiency was eliminated and the solvency deficiency reduced. In addition, a credit of \$4,923,000 is to be applied to the payment for the year 2008, resulting in special payments in the amount of \$2,416,200 for 2008 and \$772,200 in 2009.

The special payments in the amount of \$2,416,200 for 2008 has been provided for in the 2008 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 12 officer members, 1,496 retired officers and 671 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 2007. The report shows that at December 31, 2007, the Fund had actuarial assets of \$665.2 million, liabilities of \$626.2 million and a going-concern excess of \$39.0 million. After taking into account a pre-existing credit balance of \$4.9 million (the result of an over-contribution made in 2005), the net excess at the end of 2007 was \$34.1 million, a notable improvement over the net going-concern excess of \$6.2 million which existed as at December 31, 2006.

The actuary also completed a solvency valuation comparing the Fund's assets at market value with what it would cost to satisfy the Plan's obligation by purchasing annuities. At December 31, 2007, there was a solvency deficiency of \$7.9 million.

The previous valuation as at December 31, 2006 had indicated a solvency deficiency of \$22.0 million. This \$14.1 million reduction (from \$22.0 million to \$7.9 million) was primarily the result of gains from better than expected asset performance on an actuarial basis and from employer contributions to fund the solvency deficiency.

Although the investment returns were positive, the Fund's financial situation did not improve enough in 2007 to permit the discontinuation of the special payments on account of the solvency deficiencies.

The staff report adopted by Council at its meeting held on September 25, 26, 27 and 28, 2006, directed that the credit amount of \$7,354,800 identified in the 2005 Valuation Report, as a result of previous overpayments, be allocated over the years 2007, 2008 and 2009 in order to smooth the impact on the budget. This allocation reduced the 2007 payments made by the City from \$7,339,200 to \$4,887,600 (\$7,339,200-\$2,451,600). The remaining \$4,923,000 of the credit should be applied in 2008 to reduce the required payment to \$2,416,200. The Actuary identified in his report that the minimum total Employer contribution required for 2008 is \$2,416,200 and the maximum contribution permitted is \$6,229,000.

COMMENTS

The 2007 Valuation Report of the Fund highlight the plan's financial position and operation for the year ended December 31, 2007. As at December 31, 2007, on a going-concern basis, the Plan is fully funded such that the assets exceed liabilities by \$34.1 million. However, on a solvency basis, the plan is not fully funded and the solvency liabilities exceed the solvency assets by \$7.9 million. As a result, the plan continues to require special funding from the City.

The Board, at its meeting on April 24, 2008, approved the recommendation of the actuary that no cost-of-living increase be provided to pensioners in 2008 and that the City continue to make special payments to eliminate the solvency deficiency over the shorter period in the amounts suggested in the 2007 Valuation Report.

CONTACT

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SIGNATURE

Cam Weldon
Treasurer

ATTACHMENT

Actuarial Report for the Metropolitan Toronto Police Benefit Fund at December 31, 2007