



STAFF REPORT INFORMATION ONLY

Audited Financial Statements – City of Toronto Pension Plans for Year Ending December 31, 2007

Date:	October 17, 2008
To:	Audit Committee
From:	Acting Treasurer
Wards:	All
Reference Number:	P:\2008\Internal Services\ppeb\au08012ppeb (AFS#7900)

SUMMARY

This report will present the financial statements for the City of Toronto Pension Plans for the year ending December 31, 2007.

Financial Impact

There are no financial implications resulting from this report.

COMMENTS

The financial statements of the City's five pre-OMERS pension plans for the year ending December 31, 2007 have been audited by Ernst & Young and approved by the respective Board of Trustees/Pension Committee.

On an annual basis, an actuarial valuation for funding purposes for each of the five pension plans is completed and presented to the respective Board of Trustees / Pension Committee as well as the Government Management Committee and Council. A summary of the actuarial reports have been included in this report. Currently, the Metropolitan Toronto Police Benefit Fund and the City of York Employee Pension Plan continue to be in a deficit position and the City is required to make special payments. These plans have been unable to provide inflationary increases to pensioners since they have been in a deficit position. The remaining three plans currently have a surplus that is used to fund inflationary increases.

ACTUARIAL SUMMARY BY PENSION PLAN:

Each year the actuary prepares a valuation for each of the plans. The valuation is prepared using two methods: a solvency valuation and a funding, or going-concern valuation.

The solvency valuation is prepared assuming the plan is being wound up, whereas the going-concern valuation assumes the plan is continuing indefinitely. If a deficit is identified in either method, the City, as sponsor, is required to make special payments into the funds.

Metropolitan Toronto Pension Plan

The Plan remains well funded and the Actuary has confirmed there are sufficient surpluses available to provide for the 2.14% cost-of-living increase. Therefore, an increase of 2.14% was granted on pensions effective January 1, 2008 to pensioners and survivors at a cost of \$12.1 million.

The Actuarial Report as completed by Mercer Human Resources Consulting, shows that at December 31, 2007, the Plan had actuarial assets of \$692.7 million, liabilities of \$557.0 million and a going-concern surplus of \$135.7 million. 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, 2007 there was an excess of solvency assets over solvency liabilities of \$100.7 million. The lesser of the going-concern excess (\$135.7 million) and the solvency excess (\$100.7 million) is placed in the Indexation Reserve Account.

Metropolitan Toronto Police Benefit Fund

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 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 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.

Toronto Civic Employees' Pension & Benefit Fund

The Plan remains well funded and the Actuary has confirmed there are sufficient surpluses available to provide for the 2.16% cost-of-living increase generated by the plan's excess interest indexing provision, therefore, an increase of 2.16% was granted effective January 1, 2008 to all pensioners and survivors. The total estimated cost for the recommended increase was \$5.98 million on a going-concern basis and \$6.96 million on a solvency basis.

The Actuarial Report as completed by Buck Consultants Ltd., shows that at December 31, 2007, the Plan had actuarial assets of \$441.7 million, liabilities of \$277.4 million and a going-concern surplus of \$164.3 million. 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, 2007, there was an excess of solvency assets over solvency liabilities of \$144.5 million.

Toronto Fire Department Superannuation & Benefit Fund

The Plan remains well funded and the Actuary has confirmed there are sufficient surpluses available to provide for the 2.16% cost-of-living increase generated by the plan's excess interest indexing provision, therefore, an increase of 2.16% was granted effective January 1, 2008 to all pensioners and survivors. The total estimated cost for the recommended increase was \$5.65 million on a going-concern basis and \$6.7 million on a solvency basis.

The Actuarial Report as completed by Buck Consultants Ltd., shows that at December 31, 2007, the Plan had actuarial assets of \$323.3 million, liabilities of \$261.8 million and a resulting going-concern surplus of \$61.5 million. 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, 2007, there was an excess of solvency assets over solvency liabilities of \$26.4 million.

The Corporation of the City of York Employee Pension Plan

The Actuarial Report as completed by Mercer Human Resources Consulting, shows that at December 31, 2007, the Plan had actuarial assets of \$57 million, liabilities of \$60.5 million and a going-concern unfunded liability of \$3.42 million (an improvement over the unfunded liability of \$8.7 million a year earlier).

The City, as plan sponsor, is required to continue making special payments to the Plan until the going-concern and solvency deficiencies are eliminated. The Actuary has recommended that the City make special payments in the amount of \$3.121 million per year in respect of the going-concern (\$1.89 million) and solvency deficiency (\$1.23 million) until revised by a subsequent valuation report.

As a result of the financial position of the Plan, the Actuary recommended that no cost-of-living increase be provided to pensioners in 2008 and that the City contribute from January 1, 2008, \$3.121 million per year in respect of the going-concern and solvency deficiency.

ASSET MANAGEMENT

The pension fund assets are actively invested by the specialty investment managers retained by the respective Board of Trustees / Pension Committee in order to meet the pension liabilities of the plans. In 2007, the plans paid pensions totalling \$195.3M to approximately 8,234 retired members and surviving spouses receiving pension benefits.

Each of the funds has an asset mix policy that is reviewed annually. Given that these plans are closed, the asset mix has been 50% stocks, 50% bonds for some time.

The recent market events have had an impact on these pension plans. The plans do not provide automatic inflationary protection but rather, contain provisions that allow inflationary increases when a surplus exists. The 2008 valuations will be presented to the

respective boards/committees in the spring of 2009 followed by a staff report to the Government Management Committee. The special funding previously approved by Council will continue and recommendations will be brought forward to Committee and Council related to any new action required.

The 2007 Financial Statements for the City of Toronto pension plans are being submitted to the Audit Committee for information.

A summary of membership as well as pension payments and expenses by pension plan is listed below.

Summary of Membership by Pension Plan as at December 31, 2007

Pension Plan	Active Members	Retired Members	Spousal Members	Vested/ Deferred	Total 2007	Total 2006	Total 2005
Metropolitan Toronto Pension Plan	12	2,062	1,055	6	3,135	3,254	3,365
Metropolitan Toronto Police Benefit Fund	12	1,496	671	0	2,179	2,213	2,248
Toronto Civic Employees' Pension & Benefit Fund	1	954	702	1	1,658	1,750	1,829
Toronto Fire Department Superannuation & Benefit Fund	0	643	337	0	980	1,009	1,030
Corporation of the City of York Employee Pension Plan	0	174	108	0	282	294	302
TOTAL	25	5,329	2,873	7	8,234	8,520	8,774

Summary of Annual Pension & Survivor Payments and Expenses

Pension Plan	Pension Payment	Plan Expenses
Metropolitan Toronto Pension Plan	\$59,746,000	\$1,339,000
Metropolitan Toronto Police Benefit Fund	\$61,683,000	\$1,929,000
Toronto Civic Employees' Pension & Benefit Fund	\$37,431,070	\$1,368,000
Toronto Fire Dept. Superannuation & Benefit Fund	\$29,747,434	\$1,204,000
Corporation of the City of York Employee Pension Plan	\$6,728,000	\$222,000
TOTAL	\$195,335,504	\$6,062,000

As at December 31, 2007, the net actuarial surplus/deficit includes the following components:

	Toronto Civic Employees Pension & Benefit Fund	Toronto Fire Department Super- annuation & Benefit Fund	Metropolitan Toronto Pension Plan	Metropolitan Toronto Police Benefit Fund	Corporation of the City of York Employee Pension Plan
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Pension assets- market value-end of year	467,382	336,525	688,514	674,163	57,156
Actuarial Pension Liability-end of year	(350,044)	(341,747)	(676,852)	(732,572)	(64,806)
Unamortized actuarial losses/(gains)	24,779	29,131	86,439	(13,930)	10,977
Net Actuarial Surplus/ (Deficit)	142,117	23,909	98,101	(72,339)	3,327

The net actuarial deficit of the Metropolitan Toronto Police Benefit Fund is included in the employee benefits liabilities on the City's consolidated statement of financial position. The net actuarial surpluses of the other four plans are not reflected as there is uncertainty about the City's right to this surplus.

CONCLUSION

The financial statements of the City's pension funds for the year ended December 31, 2007 have been approved by the respective Board of Trustees/Pension Committee and are presented to the Audit Committee for information.

CONTACT

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

SIGNATURE

Giuliana Carbone
Acting Treasurer

ATTACHMENTS

Audited Financial Statements as at December 31, 2007 for:

- The Pension Fund of the Corporation of the City of York Employee Pension Plan
- The Fund of the Metropolitan Toronto Pension Plan
- The Fund of the Metropolitan Toronto Police Benefit Fund
- The Fund of the Toronto Civic Employees' Pension & Benefit Fund
- The Fund of the Toronto Fire Department Superannuation & Benefit Fund