TORONTO City Council Decision

Executive Committee – Item 24.7

Considered by City Council on October 29 and 30, 2008

EX24.7	Adopted			Ward: All

Adequacy of Employee Benefits Reserve Funds

City Council Decision

City Council on October 29 and 30, 2008, adopted the following motions:

1. City Council set two years of employee benefit cash costs as a target balance level for the consolidated employee benefits reserve funds.

2. Consideration be given in the 2009 Operating Budget to increase the non-program contribution to the consolidated employee benefit reserve funds by $4 million to $43 million.

3. City Council endorse, in principle, a plan to require agencies, boards and commissions, starting in 2010, to contribute annual funding to the Sick Leave Reserve Fund that matches budgeted withdrawals.

4. Staff revise the annual benefits charges to divisions and applicable agencies, boards and commissions on a staged basis over three years starting in 2011 to reflect additional funding requirements for retired employees, employees on long-term disability, workplace safety (pre-amalgamation) and sick leave gratuity payouts.

(September 22, 2008) Report from the Deputy City Manager and Chief Financial Officer

Committee Recommendations

The Executive Committee recommends that:

1. Council set two years of employee benefit cash costs as a target balance level for the consolidated employee benefits reserve funds.

2. Consideration be given in the 2009 Operating Budget to increase the non-program contribution to the consolidated employee benefit reserve funds by $4 million to $43 million.

3. Council endorse, in principle, a plan to require Agencies, Boards and Commissions starting in 2010 to contribute annual funding to the Sick Leave Reserve Fund that matches budgeted withdrawals.

4. Staff revise the annual benefits charges to Divisions and applicable Agencies, Boards and Commissions on a staged basis over three years starting in 2011 to reflect additional funding requirements for retired employees, employees on long-term disability, workplace safety (pre-amalgamation) and sick leave gratuity payouts.

Financial Impact

The City has a projected employee benefit actuarial liability of approximately $2.1 billion as identified in a valuation report prepared by Mercer Human Resource Consulting for the year ended December 31, 2007. Mercer's projections of actuarial liabilities from December 2006 to December 2009 are provided in Appendix A. About $240.1 million of this liability is funded by reserves as at December 31, 2007, leaving a net liability of approximately $1.8 billion. The unfunded portion of this liability will be financed from future revenues. Left unabated, the liability will continue to grow as a result of additional accrued benefits and the increased value of accruals in current year dollars. The net liability has grown from approximately $1.5 billion on December 31, 2004 to approximately $1.8 billion on December 31, 2007.

The major credit rating agencies have identified the unfunded portion of employee benefits liabilities as a negative ratings factor. Standard & Poor acknowledged that while the City of Toronto does have a plan to fund these liabilities, however progress to-date has been slow.

The recommendations will have future year operating budget implications as estimated below:

Operating Budget Impact (in $ Millions)				
2009	2010	2011	2012	2013
4.0	11.3	11.7	11.7	11.7

Summary

The purpose of this report is to report on the City's non-pension employee benefit liabilities as at December 31, 2006, extrapolated for the years 2007, 2008 and 2009. Specifically, these include the post-retirement, post-employment, sick leave gratuity and self-insured Workplace Safety Insurance Board (WSIB) benefit plans for the City of Toronto, Toronto Police Services and the City's Agencies, Boards and Commissions. Groups that are not part of this report include Toronto Hydro, Toronto Community Housing, Toronto Parking Authority and the Toronto Transit Commission.

This report will also comment on the adequacy of the employee benefits reserve funds and provide options to adequately fund the benefit liabilities.

By introducing measures to more fairly allocate the true cost of non-pension benefits across all Divisions and ABCs, it is possible to initially stop the growth in employee benefits net liabilities and allow the associated reserve funds to start building up to a recommended target of two times cash costs.

Background Information (Committee)

Adequacy of Employee Benefits Reserve Funds
(http://www.toronto.ca/legdocs/mmis/2008/ex/bgrd/backgroundfile-15925.pdf)

Speakers (Committee)

Councillor Michael Del Grande, Ward 39, Scarborough-Agincourt