TORONTO

STAFF REPORT
ACTION REQUIRED

The Corporation of the City of York Employee Pension Plan – Actuarial Report as at December 31, 2008

Date:	August 12, 2009
To:	Government Management Committee
From:	Acting Treasurer
Wards:	All
Reference Number:	P:\2009\Internal Services\ppeb\gm09007ppeb (AFS# 8940)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2008 for the Corporation of the City of York Employee Pension Plan (the Plan) and requests additional funding in the form of special annual payments to the Plan as required under the Ontario pension legislation with respect to the solvency and going-concern deficiencies.

The 2008 Valuation sets forth the financial position of the Plan for the year ended December 31, 2008. The report outlines both the solvency deficiency and a going-concern deficiency of the Plan and outlines an amortization schedule of payments required to eliminate the deficiency within the mandatory five years. As a result of the financial position of the Plan, staff are recommending that no cost of living increase be provided to pensioners in 2009.

RECOMMENDATIONS

The Acting Treasurer recommends that:

1. The report on the "Actuarial Valuation for Funding Purposes as at December 31, 2008" prepared by Mercer Human Resource Consulting with respect to The Corporation of the City of York Employee Pension Plan be received;

2. Authority be granted for the City officials to increase the existing special payments of $2,945,530 in 2009 to $3,495,862 in order to fund the additional going-concern and solvency deficiencies which developed in 2008;

3. Authority be granted for City officials to make interest payments of $9,288 which are required because the increase in special payments will not be processed until November 1, 2009;

4. The appropriate City officials be authorized to make special annual payments of $1,066,332 per year for 2010-2012 and $550,332 for 2013 for the going-concern and solvency deficiency;

5. This report be forwarded to Budget and Executive Committees with a recommendation that the 2009 non-program budget for “Programs funded from Reserve Funds” be increased by $559,620 gross and $0 net, funded by a draw from the Employee Benefits Reserve Fund (XR1002), to accommodate the new special payment requirements resulting from the 2008 Actuarial Valuation for The City of York Employee Pension Plan; and,

6. 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 2007 Actuarial Valuation and previous valuations, the City of Toronto was required to make special annual payments to the Plan in the amount of $3,121,264 for 2008 and $2,945,530 in 2009.

The 2008 Actuarial Valuation shows deterioration in both the going-concern and solvency position of the Benefit Fund. As a result, the City of Toronto is required to increase the special payments for 2009 to a minimum of $3,505,150 which includes the required interest. The total amount of interest owing that has been calculated using an interest rate of 4.625%, which is the discount rate used for the solvency valuation, is $9,288. The interest amount in addition to the catch-up payment and the required monthly contribution totals $764,231 and is required on November 1st, 2009 to meet the financial obligation of the plan.

Funding for these special annual payments will come from the Employee Benefits Reserve. For 2009, $2,945,530 has been budgeted from this account. Therefore, there is an additional 2009 budget imperative of $559,620 as a result of the new annual special payment requirements resulting from the 2008 Actuarial Valuation.

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

DECISION HISTORY

The Actuarial Valuation Report of the City of York Employee Pension Plan (the Plan) is submitted annually to Council. At its meeting held on July, 15, 16, 17, 2008 City Council adopted Government Management Report Meeting No. 16, Item GM16.6 - The

Corporation of the City of York Employee Pension Plan – Actuarial Report as at December 31, 2007. Following is the link to the report and decision document. http://www.toronto.ca/legdocs/mmis/2008/gm/reports/2008-07-09-gm16-cr.pdf

ISSUE BACKGROUND

The Corporation of the City of York Employee Pension Plan (the Plan), whose terms are set forth in Schedule "A" to By-law No. 3349-96 of the former City of York as amended, is one of five pre-OMERS plans sponsored by the City of Toronto. It covers 163 retired employees and 105 survivor pensioners. There are no longer any active employees in the Plan. The Plan's administrator is the York Employees' Pension and Benefit Committee (the Benefit Committee).

The pension plan is a defined benefit plan which is legislated through the *Pension Benefits Act* (PBA) and regulated by the Financial Services Commission of Ontario (FSCO). The *Pension Benefits Act* requires the preparation and filing of an Actuarial Valuation of the Pension Plan's assets and liabilities on both a going-concern basis and a solvency basis; however, a plan must be funded according to whichever method produces the highest level of funding. Funding valuations must conform to accepted actuarial practices set by the Canadian Institute of Actuaries (CIA). The Actuarial Valuation is filed with FSCO and the Canada Revenue Agency (CRA).

A going-concern valuation assumes that the plan will be ongoing and will predict how liabilities and assets are likely to accumulate in the future. A going-concern comparison of the plan's projected performance with its actual performance over the past three year period can generate either a going concern surplus (if the valuation shows the plan to be over-funded) or an "unfunded liability" (if the valuation shows the plan to be under-funded) which must be amortized over 15 years.

A solvency valuation assumes the plan will be wound up immediately (i.e. its assets will be used immediately to meet its existing liabilities). If a plan has greater assets than liabilities on a solvency basis, it has a surplus. If there are more liabilities than assets the plan has a "solvency deficiency" and, in order to comply with the *Pension Benefits Act (Ontario)*, that deficiency must be eliminated by way of special payments over an amortization period of no longer than five years.

<u>Solvency Funding Rules in Ontario</u>

The current solvency funding rules in Ontario require a pension plan to be valued and funded on the assumption of immediate wind-up on the valuation date and the proceeds applied to the purchase of pension annuities and associated costs. If the valuation reveals a solvency deficiency, special payments are required to eliminate the deficiency over an amortization period no longer than five years.

Based on the 2008 Actuarial Valuation, the City of York Employee Pension Plan is funded at 80% on a wind-up basis. This represents the ratio of assets at market value to wind-up liability. On a solvency basis, the plan has a deficiency of $12.2 million which must be eliminated.

It should be noted that a Report of the Ontario Expert Commission on Pensions titled, *'A Fine Balance'*, has presented options to assist sponsors of pension plans with respect to solvency funding relief amongst other matters. One of the options outlined in that report is a proposal to increase the solvency amortization period from five (5) to ten (10) years as long as no more than one-third of the plan's membership objects. That requirement could be difficult if not impossible to achieve.

The City of Toronto made submissions to the Expert Commission on Pensions requesting differential treatment with respect to solvency deficiency for municipalities on the basis that, unlike private employers, municipalities are unlikely to become bankrupt. In addition, municipalities derive their funds from taxpayers and solvency funding special payments place an additional burden on the municipal budget, as is reflected in this report.

In its submission, the City requested that consideration be given to the establishment of a solvency deficiency threshold of 80% for municipalities. If such a threshold were to be set, special payments would not be required in 2009 or in years 2010-2013 based on the 2008 valuation report. These submissions have not been accepted by the Province. In addition, going-concern shortfalls are anticipated for at least a few years, which would have to be eliminated in each case over the fifteen years following the applicable valuation date.

Asset Mix and Investment Returns

Given the demographics of the plan members, the Benefit Committee invests the Fund's assets conservatively in a well diversified portfolio of equity and fixed-income securities. The Committee monitors the investments prudently in accordance with a Statement of Investment Policies and Procedures which it reviews annually.

The target asset mix of the Fund as set out in the Statement of Investment Policies & Procedures is as follows:

Asset Mix	
Cash & Equivalents	0%
Bonds	50%
Canadian Equity	25%
U.S. and Other Foreign Equity	25%
TOTAL	**100%**

Like the investments of many other pension plans throughout North America, those of the Benefit Fund performed worse in 2008 than had been expected at the beginning of the year. The 2008 rate of return, based on market values, was -9.9%.

COMMENTS

The Plan's Actuary, Mercer Human Resources Consulting, conducts an Actuarial Valuation of the Plan's assets and liabilities and recently submitted to the Benefits

Committee its actuarial report for 2008. The purpose of the valuation is to determine: a) the financial position of the Plan as at December 31, 2008 on both a going-concern and solvency basis; and, b) the minimum funding requirements by the City and the Plan members during the 2009 calendar year.

<u>Going Concern</u>
The valuation shows that at December 31, 2008, the Plan had actuarial assets of $55 million, pension liabilities of $57.6 million, and a going-concern unfunded liability of $2.6 million (an improvement over the unfunded liability of $3.4 million a year earlier).

<u>Solvency Valuation</u>
As part of the actuarial valuation, the Actuary also completed a solvency valuation by comparing the Plan's assets at market value smoothed over four years with what it would have cost to satisfy the Plan's obligations by winding it up and purchasing annuities using a discount rate that is also smoothed over four years. The report shows that on such a basis, at December 31, 2008, the adjusted value of the assets was $54.4 million and the adjusted value of the liabilities was $61.1 million thus producing a smoothed solvency deficiency of $6.7 million. The previous valuation as at December 31st, 2007 had indicated a smoothed solvency deficiency of $7.1 million. The improvements in the solvency positions ($7.1 million to $6.7 million) since the last valuation is primarily due to special contributions made by the City during 2008.

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 solvency deficiency of $6.7 million shown in the 2008 Actuarial Valuation must be eliminated within the five years following 2008. For a full five-year amortization, the City of Toronto must make the following special payments on account of the solvency deficiency:

Year	Special Payment
2009	*$3,505,150
2010	$1,066,332
2011	$1,066,332
2012	$1,066,332
2013	$550,332
TOTAL	**$7,254,478**

*The 2009 special payment includes $2,945,530 to eliminate solvency deficiencies outlined in previous Actuarial Valuations in addition to $9,288 in required interest.

The 2008 Valuation Report of the plan outlines the difficult financial position of the Plan for the year ended December 31, 2008. As a result, the Plan continues to require special funding from the City. There has been an improvement in the solvency position since the previous valuation but this is primarily as a result of the special payments that the City has been required to make.

Cost of Living Increases
Plan members have not received a cost-of-living increase since 2001 under the Plan's post retirement adjustment provisions, as a result if its poor position. Given the City's obligation as the Plan sponsor to make special payments to eliminate the going-concern deficits and solvency deficiencies in the intervening years, there have been no *ad hoc* increases for pensioners either.

Plan members have expressed concern over the lack of cost-of-living increases for the past number of years. However, given the current financial position of the Plan, the Actuarial Valuation has not recommended a cost of living increase for 2009. Although staff sympathize with the plan members, a cost-of-living increase cannot be considered until the Fund is fully solvent and the City of Toronto is no longer required to make special payments.

It should be noted that the Actuary has provided the Board with projections indicating that even assuming an investment return of 5.5% for 2009 and a slightly more favourable discount rate than that used for 2008, there will be a further smoothed going-concern shortfall of $1.7 million and a further smoothed solvency deficiency of $4.6 million, both of which would require additional streams of special payments. This will result in an additional budget pressure in 2010. Staff will report to the Government Management Committee in 2010, once a new valuation is received.

The Pension Committee at its meeting held on May 28th, 2009, approved the 2008 Actuarial Valuation report and requested that this report be forwarded to Council for their information.

CONTACT

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SIGNATURE

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Giuliana Carbone
Acting Treasurer

ATTACHMENTS

May 2009 The Corporation of the City of York Employee Pension Plan Report on the Actuarial Valuation for Funding Purposes as at December 31, 2008