



STAFF REPORT ACTION REQUIRED

Metropolitan Toronto Police Benefit Fund – 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\gm09006ppeb (AFS# 8937)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2008 for the Metropolitan Toronto Police Benefit Fund (MTPBF) and requests additional funding in the form of special annual payments as required under Ontario pension legislation when a plan has a “solvency deficiency”.

The 2008 Valuation sets forth the financial position of the Benefit Fund for the year ended December 31, 2008, outlines its solvency deficiency at that date, provides an amortization schedule for eliminating the deficiency within the mandatory five years and recommends no cost-of-living increase for pensioners for 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 Metropolitan Toronto Police Benefit Fund, be received;
2. Authority be granted for City officials to increase the existing special payments of \$772,200 in 2009 to \$5,425,800 beginning on November 1, 2009 in order to fund the solvency deficiency of the Plan based on the 2008 actuarial valuation;
3. Authority be granted for City officials to make interest payments of \$82,660 which is required as 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 in the amount of \$4,653,600 for the solvency deficiency for years 2010-2013;
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 \$3,508,460 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 Metropolitan Police Benefit Fund; 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 Benefit Fund in the amount of \$2,416,200 for 2008 and \$772,200 in 2009.

The 2008 Actuarial Valuation shows a deterioration in the 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 \$5,508,460 which includes 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 \$82,660. The interest amount, in addition to the catch-up payment of \$4,477,160, are required on November 1, 2009 to meet the financial obligation of the plan.

Funding for these special annual payments will come from the Employee Benefits Reserve. For 2009, \$2,000,000 has been budgeted from this account. Therefore, there is an additional 2009 budget imperative of \$3,508,460 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 information.

DECISION HISTORY

The Actuarial Valuation Report of the Metropolitan Toronto Police Benefit Fund is submitted annually to Council. At its meeting held on July 15, 16 & 17, 2008 City Council adopted Executive Committee Report Meeting No. 22, Item EX22.18 entitled “Metropolitan Toronto Police Benefit Fund - Actuarial Report as at December 31, 2007”. Following is the link to the report and decision document.

<http://www.toronto.ca/legdocs/mmis/2008/ex/reports/2008-06-26-ex22-cr.pdf>

ISSUE BACKGROUND

The pension plan financed by 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 sponsored by the City of Toronto.

It covers 10 officer members, 1,445 retired officers and 684 survivor pensioners. The plan's Administrator is the Metropolitan Toronto Police Benefit Fund Board of Trustees ("the Board of Trustees").

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*, that deficiency must be eliminated by way of special payments over an amortization period of no longer than five years.

Solvency Funding Rules in Ontario

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.

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) years 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 of the Fund

Given the demographics of the plan members, the Board of Trustees invests the Fund’s assets conservatively in a well diversified portfolio of equity and fixed-income securities. The Board monitors the investments prudently, with advice from the advisors which it retains, in accordance with a Statement of Investment Policies and Procedures which is reviewed by the Board annually.

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

Asset Mix	
Cash & Equivalents	5%
Bonds	45%
Canadian Equity	30%
U.S. and Other Foreign Equity	20%
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 -14.47%.

COMMENTS

The Benefit Fund’s Actuary, Mercer Human Resources Consulting, conducts an annual actuarial valuation of the Benefit Fund’s assets and liabilities and recently submitted to the Board of Trustees, its actuarial valuation 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.

Going-Concern Valuation

The valuation shows that at December 31, 2008, the Benefit Fund had actuarial assets of \$624 million, liabilities of \$598 million and a going-concern excess of \$26 million, down from a funding excess of \$34.1 million as at December 31st, 2007. This decline is

primarily the result of net experience losses due to the worse-than-expected performance of the assets on an actuarial-value basis, partially offset by employer contributions to fund the solvency deficiency.

Solvency Valuation

As part of the Actuarial Valuation, the actuary completed a solvency valuation comparing the Fund’s assets at market value smoothed over four years with what it would cost to satisfy the pension obligations by winding up the plan and purchasing annuities using a discount rate that is also smoothed over four years. The report shows that on such a basis, the value of the assets of \$618.1 million is less than the actuarial liabilities of \$639.7 million, producing a total solvency deficiency of \$21.6 million as at December 31, 2008. The previous valuation as at December 31st, 2007 had indicated a solvency deficiency of \$7.9 million.

The solvency deficiency of \$21.6 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	*\$5,508,460
2010	\$4,653,600
2011	\$4,653,600
2012	\$4,653,600
2013	\$4,653,600
TOTAL	\$24,122,860

*The 2009 special payment includes \$772,200 to eliminate solvency deficiencies outlined in previous Actuarial Valuations in addition to \$41,922 in required interest.

The 2008 Valuation Report of the Fund outlines the difficult financial position of the Fund for the year ended December 31, 2008. As a result, the plan continues to require special funding from the City and when some of the deferred losses from 2008 are taken into account for the 2009 valuation as required by the smoothing process, it is virtually certain that the special payments will increase over the next few years.

Cost of Living Increases

Plan members have not received a cost-of-living increase since 2003, since the Fund had a solvency deficiency at the end of that year and has had a solvency deficiency at the end of every year since. From 2004 onward, the City of Toronto as the plan sponsor, has had to make special payments to the Fund to eliminate those deficiencies.

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 Fund, the Actuarial Valuation does not support a cost of living increase for 2009. Although staff sympathize with the plan members, a cost-of-living increase should not be considered until the Fund is fully solvent and the City of Toronto no longer has to make special payments.

It should be noted that the Actuary has provided the Board with projections indicating that even assuming an investment result of 5.5% for 2009 and a slightly more favourable discount rate than that used for 2008, there will be both a going-concern shortfall of \$25 million and a *further* solvency deficiency of \$47 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 the December 2009 valuation is received.

The Board, at its meeting on April 24, 2009 approved the recommendation of the actuary that no cost-of-living increase be provided to pensioners in 2009 and that the City of Toronto make the required special payments to eliminate the pre-existing and newly determined solvency deficiencies.

CONTACT

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SIGNATURE

Giuliana Carbone
Acting Treasurer

ATTACHMENTS

April 2009 Metropolitan Toronto Police Benefit Fund Report on the Actuarial Valuation for Funding Purposes as at December 31, 2008