TORONTO

STAFF REPORT
ACTION REQUIRED

Metropolitan Toronto Pension Plan – Actuarial Report as at December 31, 2008

Date:	June 9, 2009
To:	Government Management Committee
From:	Acting Treasurer
Wards:	All
Reference Number:	P:\2009\Internal Services\ppeb\gm09003ppeb (AFS# 8936)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2008 for the Metropolitan Toronto Pension Plan ("the Plan") and provides recommendations for a cost of living increase to pensioners effective January 1, 2009.

The 2008 valuation sets forth the financial position of the plan for the year ended December 31, 2008, outlines recommendations for a cost of living increase of 2.37% for pensioners effective January 1, 2009 and confirms that the Plan does not require any special payments by the City of Toronto.

RECOMMENDATIONS

The Acting Treasurer recommends that:

1. The "Report on the Actuarial Valuation for Funding Purposes as at December 31st, 2008" prepared by Mercer Human Resource Consulting with respect to the Metropolitan Toronto Pension Plan, be received;

2. The appropriate City officials be authorized to grant a cost of living increase of 2.37% on pensions, effective January 1, 2009 to pensioners on benefit for more than one year and a proportionate increase of 0.1975% for each month of pension payment made in 2008 be granted for pensioners who retired during 2008 at a cost of $12.8 million on a solvency basis which will be paid for through the Indexation Reserve Account of the Plan;

3. By-Law No. 15-92 of the former Metropolitan Corporation governing the Metropolitan Toronto Pension Plan as amended to date be further amended accordingly and authority be granted to introduce the necessary bill in Council; and,

4. The appropriate City officials be authorized to take the necessary action to give effect to the foregoing recommendations.

Financial Impact

The estimated cost of the increase on a solvency basis is $12.8 million and on a going-concern basis the cost is $12.2 million. This increase is payable from the Plan's Indexation Reserve Account without any contribution by the City. The balance of the Indexation Reserve Account as at December 31, 2008 is $75.7 million.

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 Pension Plan ("the Plan") is submitted annually to Council. At its meeting held on June 23, and 24, 2008 City Council adopted Government Management Report Meeting No. 15, Item GM15.6 - Metropolitan Toronto 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/2008-06-13-gm15-cr.pdf

ISSUE BACKGROUND

The Metropolitan Toronto Pension Plan ("the Plan") is one of five pre-OMERS plans sponsored by the City of Toronto. It covers 9 active members, 1,934 retired members and 1,050 survivor pensioners and 5 deferred vested pensioners. The plan's administrator is the Metropolitan Toronto Pension Plan Board of Trustees ("the Board").

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 Plans 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.

Asset Mix and Investment Returns

Given the demographics of the plan members, the Board of Trustees invest the Plan'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 it reviews annually. The target mix of the Plan as set out in the Statement of Investment Policies and Procedures is as follows:

Asset Mix	
Cash & Equivalents	5%
Bonds	45%
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 Plan performed worse in 2008 than had been expected at the beginning of the year. The 2008 rate of return, based on market values was -11.50%.

COMMENTS

The Plan's Actuary, Mercer Human Resources Consulting, conducts an annual actuarial valuation of the Plan's assets and liabilities and recently submitted to the Board of Trustees, its actuarial valuation 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 Plan had actuarial assets of $645.8 million, liabilities of $531.1 million and a going-concern surplus of $114.7 million. The funding excess has decreased from $135.7 million as at December 31st, 2007 to $114.7 million as at December 31st, 2008. This decline is primarily as a result of a change in the By-Law provision to pay the cost of living increases for January 1, 2008, the improvement in the minimum pension to $450 and net experience losses due to the worse than expected performance of the assets on an actuarial basis.

Solvency Valuation

As part of the actuarial valuation, the actuary also completed a solvency valuation comparing the Plan's assets at market value smoothed over four years with the cost to satisfy the Plan's obligation by purchasing annuities using a discount rate that is also smoothed over four years. The report shows that on a solvency basis, the value of the assets of $639.7 million exceeds the actuarial liabilities of $564 million, producing a solvency excess of $75.7 million as at December 31, 2008. The lesser of the going-concern excess ($114.7 million) and the solvency excess ($75.7 million) is placed in the Indexation Reserve Account.

The 2008 Valuation Report results of the Plan outlines the financial position of the Plan for the year ended December 31, 2008. Although the Plan performed worse than expected as a result of the volatility of the market in 2008, it remains in a healthy position with no special payments required by the City of Toronto

Indexation Reserve Account

The Indexation Reserve Account (IRA) holds assets of the Plan which are not required to meet specific current pension liabilities. It is limited to 30% of the going-concern liability for non-indexed benefits. The intent of the IRA is to fund minor improvements in pension benefits including cost of living increases.

Cost of Living Increase

The Metropolitan Toronto Pension Plan can be compared to the Ontario Municipal Employees Retirement System (OMERS) based on plan design and municipal employee plan membership. However, while OMERS provides for automatic indexation, the Metropolitan Toronto Pension Plan cannot afford to do this, based on its closed membership. Therefore, cost of living increases are reviewed annually as part of the Valuation Report, based on the financial position of the Plan.

For 2009, the Actuarial Valuation supports a cost of living increase of 2.37% on pensions effective January 1, 2009 to pensioners on benefit for more than one year and a proportionate increase of 0.1975% for each month of pension payment made in 2008 be granted for pensioners who retired during 2008. The cost of living increase is calculated based on Statistics Canada CPI previous year's average. The approximate cost of this increase is $12.8 million on a solvency basis. This will be fully funded by the Indexation Reserve Account and will reduce the indexation reserve account from $75.7 million to $62.9 million.

The Board of Trustees, at its meeting on Thursday, April 24, 2009, approved the recommendation of the Actuary to provide a cost of living increase of 2.37% to pensioners effective January 1, 2009 and requested that the report be forwarded to City Council for approval of the recommended increase.

CONTACT

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SIGNATURE

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Giuliana Carbone
Acting Treasurer

ATTACHMENTS

April 2009 Metropolitan Toronto Pension Plan Report on the Actuarial Valuation for Funding Purposes as at December 31, 2008