TORONTO

STAFF REPORT
ACTION REQUIRED

Toronto Civic Employees' Pension & Benefit Fund – 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\gm09004ppeb (AFS# 8938)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2008 for the Toronto Civic Employees' Pension and Benefit Fund ("the Fund") 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 fund for the year ended December 31, 2008, outlines recommendations for a cost of living increase of 2.34% for pensioners effective January 1, 2009 and confirms that the fund 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 31, 2008" prepared by Buck Consultants Ltd. with respect to the Toronto Civic Employees' Pension & Benefit Fund, be received;

2. City Council approve a cost of living increase of 2.34% on pensions effective January 1, 2009 at a cost of $7.5 million on a solvency basis which will be paid for by the fund;

3. By-Law No. 380-74 of the former City of Toronto governing the Toronto Civic Employees' Pension & Benefit Fund 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 $7.5 million and $6.5 million on a going-concern basis. This increase is payable from the assets of the fund and would not create any funding shortfall.

As at December 31, 2008, the Fund had a smoothed going-concern surplus of $134.7 million and an unsmoothed solvency excess of $48.2 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 Toronto Civic Employees' Pension & Benefit Fund ("The Fund") is submitted annually to Council. At its meeting held on June 13, 2008 the Government Management Committee received for information item GM 15.7 entitled Toronto Civic Employees' Pension and 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/gm/decisions/2008-06-13-gm15-dd.pdf

ISSUE BACKGROUND

The Toronto Civic Employees' Pension & Benefit Fund ("the Fund") is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers (1) one active member, 894 retired members and 682 survivor pensioners. The Fund's Administrator is The Toronto Civic Employees' Pension Committee (the Pension 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 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 fund members, the Pension Committee 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 it reviews 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	0%
Bonds	50%
Canadian Equity	20%
U.S. and Other Foreign Equity	30%
TOTAL	**100%**

Like the investments of many other pension plans throughout North America, those of the Toronto Civic Employees Pension & 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 -14.1%.

COMMENTS

The fund’s Actuary, Buck Consultants Ltd., conducts an annual actuarial valuation of the fund’s assets and liabilities and recently submitted to the Pension Committee, 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 fund had actuarial assets of $414.5 million, liabilities of $279.8 million and a going-concern surplus of $134.7 million.

During 2008, the fund experienced investment losses of $17.2 million and its liabilities increased because of a non-retroactive increase granted at the request of the Pension

Committee to make up for only partial CPI matching during the period 1989-1993 and a full CPI cost of living increase in 2008 pursuant to the terms of the governing by-law (the investment returns in 2007 and the excess assets at the end of that year met the necessary conditions). However, the fund continues to be in a healthy position and does not require special payments from the City.

Solvency Valuation

As part of the Actuarial Valuation, the actuary completed a solvency valuation comparing the fund's assets at market value with the cost to satisfy the fund's obligations by purchasing annuities at wind-up. The report shows that on a solvency basis, the value of the assets of $366.7 million exceeds the liabilities of $318.4 million, producing a solvency excess of $48.2 million.

The 2008 Valuation Report outlines the financial position of the fund and reflects that the fund performed worse than expected in 2008 as a result of the volatility of the market in 2008. However, although the fund suffered losses, its financial position remains healthy with no special payments required by the City.

Cost of Living Increase

The Toronto Civic Employees' Pension and Benefit Fund ("the Fund") 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 Toronto Civic Employees' Pension & Benefit Fund is governed by By-law No. 380-74 of the former City of Toronto as amended which provides for automatic annual cost of living increases in the Consumer Price Index (CPI) only if the following conditions are met:

i) there must be sufficient surpluses available to provide for an additional increase;
ii) the smoothed investment rate of return for the year in question (which may be negative) must exceed the rate of return required to maintain the actuarial solvency of the Plan's fund.

As at December 31, 2008, the fund failed to meet condition (ii). The fund's investment rate of return was not in excess of the required rate of return. This was due to the worldwide drop in market values.

The approximate cost of providing a cost of living increase effective January 1, 2009 is $7.5 million on a solvency basis. Notwithstanding the failure to meet the rate of return condition in the by-law for a CPI based pensioner increase in 2009, in light of the fund's going-concern surplus and its solvency excess, the Pension Committee, in accordance with its adopted pension indexing policy, recommended at its meeting of April 28, 2009 an ad hoc cost of living increase for pensioners this year since the actuarial solvency of the fund would not be jeopardized. Staff support this request.

It should be noted that the Actuary has provided the Board with projections indicating that even assuming an investment result of 0% in 2009, there will still be a surplus from both a going-concern and solvency basis and therefore, it is unlikely that any special payments will be required by the City of Toronto in 2010.

The Pension Committee at its meeting held April 28, 2009, approved the 2008 Actuarial Valuation report including the recommendation for the pensioners' increases 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

2008 Actuarial Report for the Toronto Civic Employees' Pension & Benefit Fund as at December 31, 2008