TORONTO

STAFF REPORT
ACTION REQUIRED

Toronto Fire Department Superannuation and 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\gm09005ppeb (AFS# 8939)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2008 for the Toronto Fire Department Superannuation and Benefit Fund (the Benefit Fund) and provides recommendations from staff to not provide a cost of living increase in accordance with the Fund's governing By-law. The Toronto Fire Department Superannuation and Benefit Fund Committee has submitted a request that Council approve an increase of 2.34% for 2009, however, staff do not support this request due to the deteriorating financial position of the fund and potential requirements for special payments by the City beginning in 2010.

The 2008 Valuation sets forth the financial position of the Benefit Fund for the year ended December 31, 2008, showing that at that time, although there was a smoothed going-concern surplus of $43.4 million, the Fund's solvency had deteriorated and will likely require special payments commencing in 2010. As a result, 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 Buck Consultants Ltd. with respect to the Toronto Fire Department Superannuation & Benefit Fund, be received;

2. City Council confirm that for the reasons stated in this report, no cost of living increase be provided to the Benefit Fund's pensioners in 2009;

3. The Toronto Fire Department Superannuation and Benefit Fund Committee be advised accordingly; and

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

Financial Impact

There are no financial implications arising from this report.

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 Toronto Fire Department Superannuation and Benefit Fund (the Benefit Fund) is submitted annually to Council. At its meeting held on June 13, 2008 the Government Management Committee received for information Item GM15.8 entitled Toronto Fire Department Superannuation 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 Fire Department Superannuation and Benefit Fund (the Benefit Fund) is one of five pre-OMERS pension plans sponsored by the City of Toronto. As at December 31, 2008 there were 621 retired members and 334 surviving spouses. The Fund's Administrator is The Toronto Fire Department Superannuation and Benefit Fund Committee (the Benefit Fund 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.

Solvency Funding Rules in Ontario

The current solvency funding rules in Ontario require a pension fund 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.

Although the Toronto Fire Department Superannuation & Benefit Fund does not currently have a solvency deficiency based on the actuary's projection for 2009, it will most likely have a deficiency in 2009.

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.

Asset Mix and Investment Returns

Given the demographics of the fund members, the Board of Trustees invest 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	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 Fire Department Superannuation & Benefit Fund ("the Fund") performed worse in 2008 than had been expected at the beginning of the year. The 2008 rate of return, based on market value was -12.4%.

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 Benefit Fund 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 $302.0 million, liabilities of $258.6 million and a going-concern surplus of $43.4 million.

Solvency Valuation

As part of the Actuarial Valuation, the Actuary also completed a solvency valuation comparing the fund's assets at market value smoothed over four years with the cost to satisfy the fund's obligations 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 $301.9 million exceeds the actuarial liabilities of $297.5 million, producing a solvency excess of $4.4 million as at December 31, 2008. Without smoothing, there would have been a solvency deficiency of $24.9 million which the City would have been required to eliminate by special payments within five years.

The 2008 Valuation Report of the Fund outlines the financial position of the fund and reflects that the fund performed worse than expected as a result of the volatility of the market in 2008.

Cost of Living Adjustment

The Benefit Fund can be compared to the Ontario Municipal Employees' Retirement system (OMERS) based on fund design and municipal employee fund membership. However, while OMERS provides for automatic indexation, the Toronto Fire Department

Superannuation & Benefit Fund is governed by By-law No. 10649 setting out the basic terms and conditions by which pension increases may be granted. The following conditions must be met to provide for an increase:

i) 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 fund";
ii) There must be "sufficient surpluses available to provide for an additional increase".

The cost of providing a cost of living increase to pensioners effective January 1, 2009 would be $7 million on a solvency basis. The current solvency surplus on a smoothed basis is $4.4 million. Therefore providing this increase would create a solvency deficiency of $2.6 million.

The Actuary has provided the Pension Committee with projections indicating that assuming an optimistic investment result of 5% return for 2009, the fund will be in a solvency deficiency of $25.7 million unsmoothed or $9.7 million smoothed. Therefore, even without providing a cost of living increase for 2009, the City of Toronto will likely be required to make special payments to the fund beginning in 2010.

At a special meeting of the Toronto Fire Department Superannuation and Benefit Fund Committee held on June 3, 2009, the Pension Committee requested that Council approve an increase of 2.34% for pensioners, effective January 1, 2009. However, given the deteriorating financial state of the fund and the looming special payments likely in 2010 and later years, staff cannot support the Pension Committee's request.

The Pension Committee at its meeting held on June 3, 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

Toronto Fire Department Superannuation and Benefit Fund Actuarial Valuation Report as of December 31, 2008