TORONTO

STAFF REPORT
ACTION REQUIRED

The Corporation of the City of York Employee Pension Plan – Actuarial Report as at December 31, 2009

Date:	May 4, 2010
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2010\Internal Services\ppeb\gm10005ppeb (AFS10860)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2009 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 Ontario pension legislation with respect to the solvency and going-concern funding deficiencies.

The 2009 Valuation sets forth the financial position of the Plan for the year ended December 31, 2009 on both a going concern and solvency basis. The report outlines both a going-concern unfunded liability for the Plan and a solvency deficiency, and provides an amortization schedule of payments required to eliminate the unfunded liability within the mandatory fifteen (15) years and the deficiency within the mandatory five (5) 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 2010.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive the report on the "Actuarial Valuation for Funding Purposes as at December 31, 2009" prepared by Mercer Human Resource Consulting with respect to The Corporation of the City of York Employee Pension Plan.

2. City Council approve a Non-Program Operating Budget increase of $404,772 gross and $0 net resulting in total contribution of $1,471,104 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund in order to fund the

additional going-concern unfunded liability and the additional solvency deficiency which developed in 2009.

3. City Council approve a Non-Program Operating Budget increase of $2,691 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund for interest payments to the Plan which are required because the increase in special payments will not be processed until July 1, 2010;

4. City Council approve special annual payments to the Plan of $1,471,104 per year for 2011-2012 and $908,462 for 2013 and $404,772 for 2014 for the going-concern unfunded liability and the solvency deficiency.

5. Government Management Committee forward this report to Executive Committee for authorization to adjust the 2010 Non-Program Operating Budget accordingly.

6. City Council authorize the appropriate City officials to take the necessary action to give effect to the foregoing recommendations.

Financial Impact

As a result of the Actuarial Valuations for 2008 and previous years, the City of Toronto was required to make special annual payments to the Plan in the amount of $3,500,841 for 2009 and $1,066,332 in 2010.

The 2009 Actuarial Valuation reveals that the City is required to continue to make special payments as required under the *Pension Benefits Act* (PBA), because of the solvency and going-concern positions of the Plan. As a result, the City of Toronto is required to make special payments for 2010 to a minimum of $1,473,795, which includes the required interest. Interest is owing because the increase in special payments for 2010 did not begin on January 1; it has been calculated using a rate of 4.625%, which is the annuity rate used for the solvency valuation, and will amount to $2,691 as at July 1st, 2010.

Funding for these special annual payments will come from the Employee/Retiree Benefits Reserve Fund. For 2010, $1,066,332 has been budgeted from this Reserve. Therefore, there is an additional 2010 budget of $407,463 required as a result of the new annual special payment and interest requirements resulting from the 2009 Actuarial Valuation. Through this report, staff is asking Council for authorization to adjust the 2010 Non-Program Operating Budget accordingly.

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. The last such report was considered by City Council at its meeting held on October 26 and 27, 2009, when it adopted Executive Committee Report

Meeting No. 35, Item EX35.11 entitled “The Corporation of the City of York Employee Pension Plan – Actuarial Report as at December 31, 2008”.

Following is the link to the report and decision document.
http://www.toronto.ca/legdocs/mmis/2009/ex/reports/2009-10-05-ex35-cr.htm#EX35.11

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 151 retired employees and 98 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).

Pension plans are governed by the *Pension Benefits Act* (PBA) and regulated through the Financial Services Commission of Ontario (FSCO). The FSCO is an arm’s-length agency of the Ontario Ministry of Finance, which is responsible for the administration and enforcement of the PBA and regulations under the Act. The PBA establishes the minimum standards for registered pension plans and the regulations under it require the preparation and filing (at least every three years) of an Actuarial Valuation of a pension plan’s assets and liabilities in order to determine the funded status of the plan on both a going-concern basis and a solvency basis.

> Going-concern valuation: assumes that the plan will be ongoing for an indefinite period of time. The valuation predicts 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 (3) 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). An unfunded liability on a going-concern basis must be eliminated by the employer by one or more special payments, which may be amortized over a period not exceeding fifteen (15) years.
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> Solvency valuation: assumes that the plan was wound up on the Valuation Date with all amounts coming due (*i.e.*, as if its assets had been used to meet its existing liabilities, including the purchase of annuities for its pensioners and unretired members). If a plan had greater assets than liabilities on a solvency basis on the Valuation Date, it has an actuarial surplus. If there were more liabilities than assets the plan has a “solvency deficiency” and, in order to comply with the PBA, that deficiency must be eliminated by the employer by one or more special payments which may be amortized over a period of no longer than five (5) years.

Actuarial valuation reports must be filed with FSCO and the Canada Revenue Agency (CRA) every three (3) years, unless at the end of any year a plan has a going-concern unfunded liability or a solvency deficiency in excess of 10% (i.e. the plan is less than 90% funded) in which case it must be filed each year, until the deficiency is eliminated.

Solvency Funding Rules in Ontario

The City of Toronto has written to the Province urging the Government to implement meaningful solvency funding relief for the City of Toronto and other municipalities that continue to shoulder the burden of funding defined benefit plans. The City has asked the Government to recognize the unique position of municipal employers compared to private employers, as a municipal employer is able to fund a special payment only by diverting more tax dollars into the pension plan than is necessary given that a municipality is unlikely ever to go bankrupt. As a result, the stringent solvency rules should not apply.

Asset Mix and Investment Returns

Given the demographics of the Plan members, the Benefit Committee invests the assets of the Plan's fund 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%**

As a result of the recovery of the financial markets and the Plan's investment strategy, the annual market rate of return net of expense in 2009 was 16.03%.

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 2009. The purpose of the valuation was to determine:

(a) the financial position of the Plan as at December 31, 2009 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, 2009, the Plan had actuarial assets of $53.3 million, pension liabilities of $54.1 million, and a going-concern unfunded liability of $0.808 million (an improvement over the unfunded liability of $2.6 million a year earlier).

Solvency Valuation

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 valuation shows that on such a basis, at December 31, 2009, the adjusted value of the assets was $52.7 million and the adjusted value of the liabilities was $57.9 million thus producing a smoothed solvency deficiency of $5.2 million. The previous valuation as at December 31st, 2008 had indicated a smoothed solvency deficiency of $6.7 million. The improvement in the solvency positions ($6.7 million to $5.2 million) since the last valuation is primarily due to special contributions made by the City during 2009.

The City, as plan sponsor, is required to continue making special payments to the Plan until the going-concern unfunded liability and the solvency deficiency are eliminated.

The solvency deficiency of $5.2 million shown in the 2009 Actuarial Valuation must be eliminated within the five years following 2009. 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**
2010	$1,473,795*
2011	$1,471,104
2012	$1,471,104
2013	$ 908,402
2014	$ 404,772
TOTAL	**$5,729,177**

*The 2010 special payment includes $1,471,104 to eliminate solvency deficiencies outlined in previous Actuarial Valuations in addition to $2,691 in required interest.

The 2009 Valuation Report of the plan outlines the difficult financial position of the Plan for the year ended December 31, 2009. As a result, the Plan continues to require special funding from the City. It should be noted, there has been an improvement in both solvency position and going-concern 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 financial position. Given the City's obligation as the Plan sponsor to make special payments to eliminate the going-concern unfunded liabilities and the solvency deficiencies in the intervening years, there have been no *ad hoc* increases provided to pensioners.

Plan members continue to express 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 contains no recommendation for a cost-of-living increase for 2010.

Although staff sympathize with the plan members, a cost-of-living increase cannot be considered until the Plan is fully solvent and the City of Toronto is no longer required to make special payments.

The Pension Committee at its meeting held on April 22, 2010 approved the 2009 Actuarial Valuation report and requested that this report be forwarded to Council for its information.

CONTACT

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SIGNATURE

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Giuliana Carbone
Treasurer

ATTACHMENTS

April 2010 The Corporation of the City of York Employee Pension Plan Report on the Actuarial Valuation for Funding Purposes as at December 31, 2009