TORONTO

STAFF REPORT
ACTION REQUIRED

Metropolitan Toronto Police Benefit Fund – Actuarial Report as at December 31, 2009

Date:	May 7, 2010
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2010\Internal Services\ppeb\gm10004ppeb (AFS10859)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2009 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 2009 Valuation sets forth the financial position of the Benefit Fund for the year ended December 31, 2009 on both a going concern and solvency basis, 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 2010.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receives the "Report on the Actuarial Valuation for Funding Purposes as at December 31, 2009" prepared by Mercer Human Resource Consulting with respect to the Metropolitan Toronto Police Benefit Fund.

2. City Council approve a Non-Program Operating Budget increase of $4,983,600 gross and $0 net resulting in total contribution of $9,637,200 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund beginning on July 1, 2010 in order to fund the solvency deficiency of the Plan on the basis of the 2009 Actuarial Valuation.

3. City Council approve a Non-Program Operating Budget increase of $33,129 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund for interest payments which are required as the increase in special payments will not be processed until July 1, 2010.

4. City Council approve special annual payments to the Fund in the amount of $9,637,200 for the solvency deficiency in each of the years 2011-2013 and $4,983,600 for 2014.

5. City Council confirm that given the difficult financial position of the Fund, the temporary supplementary pension recommended by the Board of Trustees of the Metropolitan Toronto Police Benefit Fund not be approved.

6. City Council advise the Metropolitan Toronto Police Benefit Fund accordingly.

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

8. 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 2008 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 $5,467,722 in 2009.

The 2009 Actuarial Valuation shows deterioration in the solvency position of the Benefit Fund. As a result, the City of Toronto is required to increase the special payments for 2010 to a minimum of $9,670,329, which includes required interest. Interest is owed 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 discount rate used for the solvency valuation, and will amount to $33,129 as at July 1st, 2010 .

Funding for these special annual payments will come from the Employee/Retiree Benefits Reserve Fund. For 2010, $4,653,600 has been budgeted from this Reserve. Therefore, there is an additional 2010 budget of $5,016,729 required as a result of the new annual special and interest payment 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 information.

DECISION HISTORY

The Actuarial Valuation Report of the Metropolitan Toronto Police Benefit Fund is submitted annually to Council. The last such report was considered by Council at its meeting held on October 26 and 27, 2009 when it adopted Executive Committee Meeting Report No. 35, Item EX35.12 entitled, "Metropolitan Toronto Police Benefit Fund - Actuarial Report as at December 31, 2009".

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#EX35.12

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 8 officer members, 1,391 retired officers and 710 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 was wound up on the Valuation Date (*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, it has a 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 way of special payments over an amortization period of no longer than five years.

<u>Solvency Funding Rules in Ontario</u>

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 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 investment advisors retained by it 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	5%
Bonds	45%
Canadian Equity	30%
U.S. and Other Foreign Equity	20%
TOTAL	**100%**

The market rate of return net of expense was 16.03% for 2009.

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 2009. The purpose of the valuation is to determine:

a. the financial position of the Fund as at December 31, 2009 on both a going concern and a solvency basis; and

b. the minimum funding requirements by the City and the plan members during the 2010 calendar year.

Going-Concern Valuation

The Valuation shows that at December 31, 2009, the Benefit Fund had actuarial assets of $582.3 million, liabilities of $570.08 million and a going-concern excess of $11.5 million, down from a funding excess of $26.1 million as at December 31st, 2008. 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 $575.4 million was less than the actuarial liabilities of $614.7 million, producing a total solvency deficiency of $39.3 million as at December 31, 2009. The previous valuation as at December 31st, 2008 had indicated a solvency deficiency of $21.6 million. The deterioration in the solvency position is again due primarily to worse than expected performance of the assets.

The solvency deficiency of $39.3 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	$9,670,329*
2011	$9,637,200
2012	$9,637,200
2013	$9,637,200
2014	$4,983,600
TOTAL	**$43,565,529**

*The 2010 special payment includes $9,637,200 to eliminate solvency deficiencies outlined in previous Actuarial Valuations in addition to $33,129 in required interest.

The 2009 Valuation Report of the Fund outlines the difficult financial position of the Fund for the year ended December 31, 2009.

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 2010. 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.

The Board, at its meeting on April 30, 2010 received the Actuarial Valuation as at December 31, 2009 which included the recommendation of the actuary that no cost-of-living increase be provided to pensioners in 2010 and that the City of Toronto make the required special payments to eliminate the pre-existing and newly determined solvency deficiencies. In addition, the Board of Trustees approved a recommendation requesting that City Council approve a temporary supplementary pension not to exceed $750,000 to be used to provide a supplement to certain low earning pensioners and survivors. This amount would not be included in base pension and would be reviewed annually.

As outlined in this report, based on the Actuarial Valuation as at December 31, 2009, the Fund is in a significant financial deficit position and the City of Toronto is required to make special payments totalling $43,565,529 over the next 5 years. In addition, the Actuary has projected that this shortfall is likely to increase by the end of the year, based on an updated valuation report. The City of Toronto will bear the brunt of this financial shortfall and will be required to make special annual payments well into the future which will result in a significant budget pressure for the City of Toronto. As a result, staff cannot support this request for a supplementary benefit.

CONTACT

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SIGNATURE

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Giuliana Carbone
Treasurer

ATTACHMENTS

April 2010 Metropolitan Toronto Police Benefit Fund Report on the Actuarial Valuation for Funding Purposes as at December 31, 2009