STAFF REPORT
ACTION REQUIRED

Toronto Fire Department Superannuation and Benefit Fund – Actuarial Report as at December 31, 2009

Date:	May 3, 2010
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2010\Internal Services\ppeb\gm10006ppeb (AFS10858)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2009 for the Toronto Fire Department Superannuation and Benefit Fund (the Benefit Fund) and provides recommendations for a 0.29% cost-of-living increase to pensioners effective January 1, 2010.

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, and confirms that the Benefit Fund does not require any special payments by the City of Toronto.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive the "Actuarial Valuation Report as at December 31, 2009" prepared by Buck Consultants Ltd. with respect to the Toronto Fire Department Superannuation and Benefit Fund.

2. City Council approve, effective January 1, 2010, a cost-of-living increase of 0.29% in pension benefits to pensioners of the Toronto Fire Department Superannuation and Benefit Fund at an estimated actuarial cost of $0.8 million on a solvency basis which will be borne by the Benefit Fund.

3. By-law No. 10649 of the former City of Toronto governing the Toronto Fire Department Superannuation and Benefit Fund as amended, be further amended accordingly and authority be granted to introduce the necessary bill in Council.

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

Financial Impact

The estimated actuarial cost of the increase is $0.7 million on a going-concern basis and $0.8 million on a solvency basis. This increase is payable from the assets of the Benefit Fund and would not create any funding shortfall or financial difficulty for the Benefit Fund.

As at December 31, 2009, the Fund had a smoothed going-concern surplus of $46.4 million and a smoothed solvency surplus of $13.9 million.

The Deputy City Manager and Chief Financial Officer reviewed this report and agrees with the financial impact.

DECISION HISTORY

The Actuarial Valuation Report of the Benefit Fund is submitted annually to Council. The last such Report was considered by City Council at its meeting held on September 30, 2009 and October 1, 2009, City Council adopted Government Management Meeting Report No. 24, Item GM24.14 - Toronto Fire Department Superannuation and Benefit Fund - Actuarial Report as at December 31, 2008.

Following is the link to the decision document and the report.
http://www.toronto.ca/legdocs/mmis/2009/gm/reports/2009-09-17-gm24-cr.htm#GM24.14

ISSUE BACKGROUND

The pension plan for which the Benefit Fund exists is one of five pre-OMERS pension plans sponsored by the City of Toronto. As at December 31, 2009, there were 585 retired members and 339 surviving spouses. The Benefit Fund's Administrator is The Toronto Fire Department Superannuation and Benefit Fund Committee (the Benefit Fund 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.

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 the 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.

Asset Mix and Investment Returns

Given the demographics of the fund members, the Board of Trustees invest the Benefit 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, which it retains in accordance with a Statement of Investment Policies and Procedures, which is reviewed by the Benefit Fund Committee annually.

The target asset mix of the Benefit 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%**

The market rate of return for the Toronto Fire Department Superannuation and Benefit Fund was 14.4% for 2009.

COMMENTS

The fund’s actuary, Buck Consultants Ltd., conducts an annual actuarial valuation of the fund’s assets and liabilities. The purpose of the valuation was to determine:

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

(b) if applicable, 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 fund had actuarial assets of $295.1 million, actuarial liabilities of $248.7 million and a going-concern surplus of $46.4 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 $295.1 million exceeded the actuarial liabilities of $281.2 million, producing a solvency surplus of $13.9 million as at December 31, 2009.

Cost of Living Adjustment

The Benefit Fund can be compared to the Ontario Municipal Employees' Retirement System (OMERS) on the basis of plan design and municipal employee plan membership. However, while OMERS provides for automatic indexation, the Benefit Fund is governed by By-law No. 10649 setting out the basic terms and conditions by which pension increases would be granted.

The following conditions must be met to provide for an automatic 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"; and

(ii) there must be "sufficient surpluses available to provide for an additional increase".

The financial position of the Benefit Fund indicates that there were sufficient surpluses available to provide for an increase. However, the smoothed investment rate of return for 2009 was 4.28% and the required return to maintain the actuarial solvency of the fund was 4.81%. As a result, condition (i) was not met and an automatic increase is not called for.

However, given the current financial position of the Benefit Fund which reflects a surplus on both a smoothed going-concern and a solvency basis and given that pensioners did not receive a cost-of-living increase for 2009, at its meeting held on April 19, 2010, the Pension Committee approved the 2009 Actuarial Valuation report and also recommended that City Council grant an *ad hoc* cost-of-living increase of 0.29% effective January 1, 2010. The recommended cost of living increase is calculated by dividing the average CPI for the current year by the average CPI for the previous year. The actuarial cost of this increase would be $0.8 million on a solvency basis, which would be funded through the assets of the Benefit Fund. The cost of providing a CPI increase for 2010 will not result in any special payment requirements by the City at this time.

Staff are supporting the Pension Committee's request for a CPI increase for 2010 on the basis that it will not result in an immediate cost to the City. Staff are currently working with the actuary (Buck Consultant) and the Pension Committee to forecast the financial status of the Benefit Fund over the next ten (10) years, and will be working with the Committee to take a long-term strategic approach to ensuring the sustainability of the Fund over the lifespan of its retirees.

CONTACT
Celine Chiovitti, Director, Pension, Payroll & Employee Benefits
Tel: (416) 397-4143, Fax: (416) 397-0835, Email: cchiovit@toronto.ca

SIGNATURE

____
Giuliana Carbone
Treasurer

ATTACHMENTS

Attachment 1: Toronto Fire Department Superannuation and Benefit Fund Actuarial Valuation Report as of December 31, 2009
Attachment 2: Letter from Buck Consultants dated April 20, 2010