

## **The Toronto Civic Employees' Pension Plan – Actuarial Valuation Report as at December 31, 2010**

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|--------------------------|---|
| <b>Date:</b>             | April 11, 2011  |
| <b>To:</b>               | Government Management Committee                       |
| <b>From:</b>             | Treasurer   |
| <b>Wards:</b>            | All   |
| <b>Reference Number:</b> | P:\2011\Internal Services\ppeb\gm11002ppeb (AFS12595) |

### **SUMMARY**

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This report submits the Actuarial Valuation as at December 31, 2010 for the Toronto Civic Employees' Pension Plan (the Plan) and provides recommendations for a cost-of-living increase of 1.84% to pensioners effective January 1, 2011.

The 2010 Valuation sets forth the financial position of the Plan for the year ended December 31, 2010 on both a going concern and solvency basis, and confirms that the Plan does not require any special payments by the City of Toronto.

### **RECOMMENDATIONS**

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#### **The Treasurer recommends that:**

1. City Council receive the “Actuarial Valuation Report as of December 31, 2010” prepared by Buck Consultants with respect to the Toronto Civic Employees’ Pension Plan.
2. City Council approve, effective January 1, 2011, an ad hoc cost-of-living increase of 1.84% in pension benefits to pensioners of the Toronto Civic Employees’ Pension Plan at an estimated actuarial cost of \$5.5 million on a solvency basis which will be borne by the Plan.
3. By-Law No. 380-74 of the former City of Toronto governing the Toronto Civic Employees’ Pension Plan as amended to date 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 annual estimated cash cost of the recommended increase in pensioner benefits is approximately \$625,000 for 2011.

The estimated cost of the recommended increase in pensioner benefits on a solvency basis will be \$5.5 million and on a going-concern basis will be \$5.0 million over the projected life of the Plan. This increase is payable from the assets of the Plan and will not create any deficit at this time, or into the future given the Plan's going concern and solvency surplus.

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 Plan is submitted annually to Council. The last such report was considered by City Council at its meeting of June 8 and 9, 2010, when it adopted Government Management Meeting GM31.5 "Toronto Civic Employees' Pension and Benefit Fund – Actuarial Report as at December 31, 2009".

Following is the link to the report and decision document:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.GM31.5>

### **ISSUE BACKGROUND**

The Civic Plan is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers (1) one active member, 772 retired members, 643 survivor pensioners and (1) deferred vested member. The Plan's Administrator is The Toronto Civic Employees' Pension Committee (the Pension 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 plan, the Pension Committee invests the Plan’s assets conservatively in a well-diversified portfolio of equity and fixed-income securities. The Pension Committee monitors the investments of the Plan prudently with advice from an investment consultant who is retained by the Committee and in accordance with the Plan's Statement of Investment Policies and Procedures, which is reviewed and approved annually by the Committee.

The target asset mix of the Plan as set out in the Statement of Investment Policies and Procedures is as follows:

| <b>Asset Mix</b>              |             |
|-------------------------------|-------------|
| Cash & Equivalents            | 0%          |
| Bonds                         | 50%         |
| Canadian Equity               | 20%         |
| U.S. and Other Foreign Equity | 30%         |
| <b>TOTAL</b>                  | <b>100%</b> |

The annual market rate of return of the Toronto Civic Employees' Pension Plan was 7.6% for 2010.

## **COMMENTS**

The Plan’s Actuary, Buck Consultants, conducts an annual actuarial valuation of the Plan’s assets and liabilities and recently submitted to the Pension Committee its actuarial valuation report for 2010. The purpose of the valuation is to determine:

- (a) the financial position of the Plan as at December 31, 2010 on both a going-concern and a solvency basis; and

- (b) the minimum funding requirements by the City, if any, during the 2011 calendar year.

#### Going Concern Valuation

The valuation shows that at December 31, 2010, the Plan had actuarial assets of \$376.0 million, actuarial liabilities of \$263.4 million and a going-concern surplus of \$112.6 million, down from a surplus of \$139.6 million as at December 31, 2009. This decline is primarily the result of net experience losses due to the performance of the plan and change in actuarial assumptions (discount rate was changed from 6.0% per year to 5.75% per year to better reflect the long term expectations of the plan).

#### Solvency Valuation

As part of the Actuarial Valuation, the actuary completed a solvency valuation comparing the Plan's assets at market value with the cost to satisfy the Plan's obligations by purchasing annuities at wind-up. The report shows that on a solvency basis, the value of the assets of \$369.5 million exceeds the solvency liabilities of \$287.2 million, producing a solvency surplus of \$82.3 million which is an improvement of the solvency surplus of \$68.7 million as at December 31, 2009.

#### Cost-of-Living Increase

The Plan 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, commencing 1997, the Plan by-law was amended to provide for future increases to pensioners including spouses of deceased retired members, based on the lesser of:

- (a) the investment rate of return of Plan assets (using a 5-year smoothing technique) in excess of the rate of return required to maintain the actuarial solvency of the Benefit Plan as determined by the Actuary, and
- (b) the increase in the year over year level of the average CPI, to the extent that actuarial surplus is available;

provided that there is sufficient surplus to cover the cost of the increase.

In respect of 2010, there was no excess investment return as outlined in (a) above, and the increase in the year over year level of the average CPI outlined in (b) above was 1.84%. Therefore, there is no automatic cost of living adjustment in respect of 2010 called for by the wording in the by-law.

However, given that the current financial position of the Plan reflects a surplus on both a going-concern and a solvency basis, and given that currently members' pensions average \$30,000 annually and surviving spousal pensions average \$15,000 annually, the Pension Committee, at its meeting held on April 5, 2011, recommended that an *ad hoc* cost-of-living increase of 1.84% be approved effective January 1, 2011. The actuarial cost of this

increase would be \$5.5 million on a solvency basis and would be funded through the assets of the Plan.

In reviewing both the current financial status of the Plan, as well as the forecasted financial position of the Plan over the next few years, staff are supportive of the ad hoc cost of living of 1.84% effective January 1, 2011 approved by the Pension Committee. The estimated cost of the recommended increase (\$5.5 million on a solvency basis and \$5.0 million on a going-concern basis) is payable from the assets of the Plan and will not create a deficit at this time or into the future given the Plan's going-concern and solvency surplus.

In addition, the Plan's actuary conducted a projection of the Plan in 2009 and concluded that the Plan should continue to have sufficient assets and surplus to sustain it for the lifetime of the Plan, without special payment requirements by the City of Toronto.

## **CONTACT**

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## **SIGNATURE**

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Giuliana Carbone  
Treasurer

## **ATTACHMENTS**

March 2011, Toronto Civic Employees' Pension Plan, Actuarial Valuation Report as of December 31, 2010