TORONTO

STAFF REPORT ACTION REQUIRED

Metropolitan Toronto Pension Plan – Actuarial Report as at December 31, 2010

Date:	April 11, 2011
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2011\Internal Services\ppeb\gm11003ppeb (AFS12594)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2010 for the Metropolitan Toronto Pension Plan ("the Plan") and provides recommendations for a cost-of-living increase 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, recommends a cost-of-living increase of 1.78% for pensioners effective January 1, 2011, and confirms that the Plan does not require any special payments by the City of Toronto.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive the "Report on the Actuarial Valuation for Funding Purposes as at December 31st, 2010" prepared by Mercer Human Resource Consulting with respect to the Metropolitan Toronto Pension Plan.

2. City Council approve a cost-of-living increase effective January 1, 2011, of 1.78% in pension benefits, to pensioners on benefit for more than one year and a proportionate increase of 0.1483% for each month of pension payment made in 2010 for pensioners who retired during 2010, at an estimated actuarial cost of $9.0 million on a solvency basis which will be borne by the Plan and charged to its Indexation Reserve Account.

3. By-law No. 15-92 of the former Metropolitan Corporation governing the Metropolitan Toronto 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 $967,252 for 2011.

The estimated cost of the recommended increase in pensioner benefits on a solvency basis will be $9.0 million and on a going-concern basis will be $8.4 million over the projected life of the Plan. The increase will be charged to the Plan's Indexation Reserve Account without any contribution by the City. The balance of the Indexation Reserve Account as at December 31, 2010 was $30.2 million on a solvency basis and will be reduced to $21.2 million if the increase is implemented. This increase should 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 Metropolitan Toronto Pension Plan ("the Plan") is submitted annually to Council. The last such report was considered by City Council at its meeting held on June 8 and 9, 2010, when it adopted Government Management Meeting GM31.3 "Metropolitan Toronto Pension Plan – 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.GM31.3

ISSUE BACKGROUND

The Metropolitan Toronto Pension Plan ("the Plan") is one of five pre-OMERS plans sponsored by the City of Toronto. It covers 6 active members, 1,724 retired members and 1,031 survivor pensioners and 4 members with vested deferred pension rights. The Plan's administrator is the Metropolitan Toronto Pension Plan Board of Trustees ("the Board").

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 members, the Board of Trustees invest the Plan's assets conservatively in a well-diversified portfolio of equity and fixed-income securities. The Board monitors the investments prudently, with advice from its investment advisors, which it retains, in accordance with a Statement of Investment Policies and Procedures, which it reviews annually. The target mix of the Plan as set out in the Statement of Investment Policies and Procedures is as follows:

Asset Mix	
Cash & Equivalents	5%
Bonds	45%
Canadian Equity	25%
U.S. and Other Foreign Equity	25%
TOTAL	**100%**

The 2010 market rate of return was 9.19%.

COMMENTS

The Plan's Actuary, Mercer Human Resources Consulting, conducts an annual actuarial valuation of the Plan's assets and liabilities and recently submitted to the Board of Trustees its actuarial valuation for 2010. The purpose of the valuation was to determine:

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

(b) the minimum funding requirements by the City during the 2011 calendar year.

<u>Going-Concern Valuation</u>
The Valuation shows that at December 31, 2010, the Plan had actuarial assets of $554.5 million, liabilities of $484.8 million and a going-concern surplus of $69.7 million. The going concern surplus has decreased by $18.5 million (from $88.2 million at December 31, 2009). This is primarily the result of the cost of living increase provided in 2010 (approximately $1.5 million) and net experience losses due to the performance of the plan.

<u>Solvency Valuation</u>
As part of the Valuation, the actuary completed a solvency valuation comparing the Plan's assets at market value smoothed over four years with what it would cost to satisfy the Plan's obligation by winding up the plan and 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 $547.0 million exceeded the actuarial liabilities of $516.8 million, producing a solvency excess of $30.2 million as at December 31, 2010. The previous valuation at December 31, 2009 indicated a solvency surplus of $45.7 million. This change in the solvency position is again primarily due to the 2010 cost of living increase and losses resulting from the worse than expected performance of the assets.

<u>Indexation Reserve Account</u>
The Indexation Reserve Account (IRA) represents assets of the Plan, which are not required to meet specific current pension liabilities. It is limited to 30% of the going-concern liability for non-indexed benefits. The intent of the IRA is to fund minor improvements in pension benefits including cost-of-living increases.

<u>Cost-of-Living Increase</u>
The Metropolitan Toronto Pension 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, the Metropolitan Toronto Pension Plan does not. It could not afford to do so, because of its closed membership. Therefore, the possibility of a cost-of-living increase is reviewed annually as part of the Valuation Report in light of the financial position of the Plan.

For 2011, the Actuarial Valuation supports a cost-of-living increase effective January 1, 2011 of 1.78%, to pensioners on benefit for more than one year and a proportionate increase of 0.1483% for each month of pension payment made in 2010 for pensioners who retired during 2010. The recommended cost-of-living increase was calculated on the basis of the average of the Statistics Canada CPI over the previous year. The approximate cost of such an increase is $9.0 million on a solvency basis. This will be fully funded by the Plan through its Indexation Reserve Account, which will be reduced from $30.2 million to $21.2 million. There is sufficient surplus to fund this increase over the projected life of the Plan. It should also be noted that currently members' pensions average $23,523 and surviving spousal pensions average $13,371.

The Board of Trustees, at its meeting on March 30, 2011, approved the recommended cost-of-living increase of 1.78% be granted on pensions effective January 1, 2011, to pensioners on benefit for more than one year and a proportionate increase of 0.1483% for each month of pension payment made in 2010 be granted for pensioners who retired during 2010 and requested that the report be forwarded to City Council for approval and implementation of the increase. Given the financial position of the Plan and the fact that no special payments are required by the City, staff support this recommendation.

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 projected life 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, Metropolitan Toronto Pension Plan, Report on the Actuarial Valuation for Funding Purposes as at December 31, 2010