

**REPORT FOR ACTION****Metropolitan Toronto Police Benefit Fund –
Preliminary Funding Valuation Report as at December
31, 2017**

Date: May 22, 2018

To: Government Management Committee

From: Treasurer

Wards: All

SUMMARY

This report submits, for the Committee's information, a Funding Valuation Presentation and Actuarial Certification prepared by Mercer (Canada) Limited as at December 31, 2017 on the Metropolitan Toronto Police Benefit Fund (the Fund), which is financed by The Metropolitan Toronto Pension Plan (the Plan) and provides information on the cost-of-living increase of 1.85% in pensioner benefits effective January 1, 2018, called for under By-law 116-2018 governing the Fund and the Plan. By-law 116-2018 contains a consolidation of former governing By-law 181-81 and all its subsequent amending by-laws, and harmonizes the Plan text with a number of established administrative practices.

On May 1, 2018, new provincial funding rules for defined-benefit pension plans came into effect, and Mercer is currently finalizing the Funding Valuation Report based on these new regulations. The enclosed Funding Valuation Presentation contains the information based on these new regulations, providing the financial position of the Fund for the year ended December 31, 2017 on going-concern and solvency bases, and confirming that the Fund does not require any special payments by the City of Toronto. Mercer has also enclosed a Certification that sufficient funds exist in the Metropolitan Toronto Police Benefit Fund's Indexation Reserve Account to Support a 1.85% Cost of Living Increase effective January 1, 2018.

The Charts below summarize the financial position of the Fund as at December 31, 2017 and December 31, 2016 based on the Actuarial information for those years.

Going-Concern Valuation – This type of valuation assumes that the Plan will continue to operate until all pensions are paid out.

Table 1 – Going Concern Valuation (\$ millions)		
	December 31, 2017	December 31, 2016
Assets	\$515.4	\$525.9
Liabilities	\$470.7	\$446.2
Surplus / (Deficit)	\$44.7	\$79.7

Solvency Valuation – This type of valuation assumes that the Plan was wound up on the valuation date (*i.e.*, December 31st, 2017) and the assets used, to the extent necessary, to meet existing liabilities including the purchase of annuities for the pensioners and any unretired members.

Table 2 - Solvency Valuation (\$ millions)		
	December 31, 2017	December 31, 2016
Assets	\$502.9	\$530.7
Liabilities	\$493.0	\$504.2
Surplus / (Deficit)	\$ 9.9	\$ 26.5
	Valuation is being filed with FSCO	Valuation was filed with FSCO

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive this report, including the “Funding Valuation Results” Presentation (attached as Attachment 1) and Certification that sufficient funds exist in the Metropolitan Toronto Police Benefit Fund's Indexation Reserve Account to support a 1.85% Cost of Living Increase effective January 1, 2018 (attached as Attachment 2).
2. City Council approve, effective January 1, 2018 a total ad-hoc cost of living increase of 1.85% in pension benefits to pensioners of the Metropolitan Toronto Police Benefit Fund.
3. City Council amend by-law 116-2018 to provide for an increase, effective January 1, 2018 of 1.85% in current pension benefits under the By-law.

FINANCIAL IMPACT

There is no financial impact as a result of this report. The Plan's actuary has provided a Certification (Attachment 2) which demonstrates that the criteria specified in the governing by-law for an increase in pensioner benefits have been met, and that there should therefore be a benefits increase of 1.85% as of January 1, 2018. There are no additional payments required to be made by the City in 2018 and none are anticipated in subsequent years.

The initial annual estimated cash cost to the Fund of the 2018 increase, arrived at by applying the percentage to estimated annual pension payments, derived from the last monthly pay cycle of 2017, will be \$802,107.

The estimated actuarial cost (present value) of the 2018 increase in pensioner benefits on a solvency basis was \$9.1 million as at December 31, 2017 and on a going-concern basis was \$8.7 million. The increase will be payable from the assets of the Fund with no contribution required by the City. As is apparent from the Valuation Report, these costs will not create any deficit at this time, given the Fund's going-concern and solvency surpluses. There is no expectation of any future deficit.

The City's five (5) pre-OMERS defined-benefit pension plans have total assets of approximately \$1.6 billion. It costs the City approximately \$1 million per year to provide staff and other administrative resources for the five plans. A merger of the York Plan has been agreed to with OMERS and documentation has been submitted to the Financial Services Commission of Ontario (FSCO) as part of the required approval process. Potential mergers of the Metro, Police and Civic Plans with OMERS, which would entail consequential wind-ups of the plans, have been agreed to but are currently conditional on the negotiation of surplus-sharing arrangements with their respective pensioners, confirmation that no more than 1/3 of their respective pensioners object to the merger in each case, and the consent of the Superintendent of Financial Services.

Such mergers will eliminate possible requirements for special payments, provide a sharing of surpluses, and provide cost savings with respect to the administration of the plans, while continuing to protect all of the rights of those entitled to benefits under the Plans (while providing guaranteed inflationary increases in line with other OMERS pensioners).

The Interim Chief Financial Officer has reviewed this report and agrees with the above financial impact information.

DECISION HISTORY

The most recent Actuarial Valuation information on the Metropolitan Toronto Police Benefit Fund ("the Fund") which the Plan finances, is submitted annually to Government Management Committee. The last such report was considered by Government Management Committee at its meeting held on May 29, 2017 when it adopted Government Management Committee report GM21.7 titled "Metropolitan Toronto Police Benefit Fund – Actuarial Report as at December 31, 2016".

Following is the link to the report and decision document:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.GM21.7>

ISSUE BACKGROUND

Ontario pension plans are governed by the *Pension Benefits Act* (PBA) and regulated through the Financial Services Commission of Ontario (FSCO). FSCO is an arm's-length agency of the Ontario Ministry of Finance and its responsibilities include the administration and enforcement of the PBA and the regulations under it. The PBA establishes minimum standards for such plans, and the regulations require the preparation and filing (at least every three (3) years) of an actuarial valuation report on 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:

This type of valuation assumes that the pension plan will be ongoing for an indefinite period of time (until the last beneficiary is paid out). It compares the value of the plan's assets as at the valuation date with the actuarially-calculated present value of all future liabilities as at the same date, yielding either a funding surplus or a deficit. The Valuation Report also contains a reconciliation with the surplus or deficit shown in the previous Valuation Report as a measure of the plan's financial health.

As part of the regulations that came into effect on May 1, 2018, an unfunded liability on a going-concern basis must now be eliminated by the employer by one or more special payments which may be amortized over a period not exceeding ten (10) years, whereas under the old regulations this time period was previously fifteen (15) years.

In addition, the Going-Concern valuation must now include a reserve, called a *provision for adverse deviation*, based in part on the mix of fixed and non-fixed income investments in the Plan's portfolio.

Solvency Valuation:

This type of valuation basis assumes that the plan was wound up on the valuation date and all its assets were used to meet its existing liabilities, including the purchase of annuities for its pensioners. If a plan has greater assets than liabilities on a solvency basis on the valuation date, it has an actuarial surplus. If there are more liabilities than assets, the plan has a "solvency deficiency" and if assets are less than 85% of liabilities, the employer must now eliminate that deficiency by one or more special payments which may be amortized over a period of no longer than five (5) years. Previously these special payments were required if assets were less than 100% of liabilities.

Actuarial valuation reports must be filed with FSCO and the Canada Revenue Agency (CRA) at least every three (3) years. If, at the end of any year, a plan had a solvency deficiency in excess of 15% (*i.e.*, the plan was less than 85% funded), such a report must be filed each year, until the deficiency is eliminated.

Asset Mix and Investment Returns

The Board of Trustees of the Metropolitan Toronto Police Benefit Fund (the Board) is the “administrator” of the Fund and the Plan within the meaning of the PBA, and therefore must ensure that both are administered in accordance with the Act and its regulations. Those regulations contain investment rules and restrictions and require the administrator to formulate and abide by a Statement of Investment Policies and Procedures (SIPP) with annual reviews.

Given the demographics of the Plan, the Pension Committee has invested the Fund's assets conservatively, through a number of investment managers, in a well-diversified portfolio of equity and fixed-income securities in accordance with the Fund's SIPP, but in view of the impending merger with OMERS, the Board has recently modified the SIPP to provide for investment of half of the Fund's assets in the short-term money market as a means of de-risking the existing surplus.

The Board of Trustees monitors the performance of the investment managers regularly with advice from a professional investment consulting firm.

The target asset mix of the Fund as set out in its current SIPP is as follows:

Asset Mix	
Cash & Equivalents	3%
Canadian Bonds	72%
Canadian Equity	5%
U.S. and Other Foreign Equity	20%
TOTAL	100%

The Fund's net rate of return for 2017 was 4.40% compared to 7.29% for 2016.

COMMENTS

The Metropolitan Toronto Police Benefit Fund is one of five (5) pre-OMERS pension plans sponsored by the City of Toronto. It covers 1,015 retired members, and 674 survivor pensioners.

The Plan's Actuary, Mercer (Canada) Limited, conducts an annual actuarial valuation of the Plan's assets and liabilities and recently submitted to the Board of Trustees its preliminary "Funding Valuation Results" presentation for 2017, and the purpose of the actuarial data contained therein is to determine:

- the financial position of the Fund as at the latest year-end on both going-concern and solvency bases; and
- the minimum PBA requirements for funding from the City, if any, during the calendar years following that year-end.

Going-Concern Valuation

The Valuation Report shows that at December 31, 2017, the Fund had smoothed actuarial assets of \$515.4 million, actuarial liabilities of \$470.7 million and a going-concern excess of \$44.7 million, a decrease of \$35.0 million from the excess of \$79.7 million as at December 31, 2016. This decrease is primarily as a result of the creation of a new provision for adverse deviation liability, as required under the new regulations.

Solvency Valuation

As part of the Actuarial Valuation, the actuary completed a solvency valuation comparing the Fund's assets at market value with the cost to purchase annuities and pay wind-up expenses as at December 31, 2017. At its meeting held on April 20, 2018, the Board of Trustees approved the solvency valuation on a smoothed basis. The Actuarial Valuation shows that on a solvency basis, the value of the assets of \$502.9 million exceeded the solvency liabilities of \$493.0 million, producing a solvency surplus of \$9.9 million (a decrease of \$16.6 million from the solvency surplus of \$26.5 million as at December 31, 2016). The decrease in the solvency surplus was primarily related to the de-risking of the Plan's investment portfolio which served to reduce investment income to offset potential losses in a volatile market.

Cost-of-Living Increase

The Plan can fairly be compared to the primary Plan of the Ontario Municipal Employees Retirement System (OMERS), given the similarities in plan design and municipal employee plan membership. However, while the OMERS plan provides for automatic indexation, the Plan's by-law does not. Therefore, the possibility of a cost-of-living increase is reviewed annually as part of the Valuation Report in light of the Fund's financial position.

For 2017, the Valuation Report indicates a September-to-September inflation rate of 1.55% and that the Indexation Reserve Account, which stood at \$9.9 million at year-end, is sufficient to finance, on a solvency basis, a cost-of-living increase of 1.55% in pension benefits effective January 1, 2018. The cost of the increase over the projected life of the Plan would be fully borne by the Fund through its Indexation Reserve Account, which would as a result be reduced to \$2.3 million.

However, in light of the lack of cost of living adjustments provided to members of the Police Fund over the past 20 years, the positive financial status of the Fund and the potential merger with OMERS, the Board of Trustees, at its meeting on April 20, 2018, recommended a cost-of-living increase of 1.85% in pension benefits effective January 1, 2018, which would further reduce the Indexation Reserve Account to \$0.8 million.

CONTACT

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SIGNATURE

Mike St. Amant
Treasurer

ATTACHMENTS

Attachment 1: The Metropolitan Toronto Police Benefit Fund, December 31, 2017
Funding Valuation Results (April 2018)

Attachment 2: Certification that sufficient funds exist in the Metropolitan Toronto Police Benefit Fund's Indexation Reserve Account to Support a 1.85% Cost of Living Increase effective January 1, 2018 (May 2018)