

GM28.6 Attachment 2



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Metropolitan Toronto Police Benefit Fund
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04 May 2018

Subject: Metropolitan Toronto Police Benefit Fund
Index Reserve Account for 2018 Cost of Living Adjustment

Dear Mike:

As requested, this letter provides information regarding the proposed cost of living adjustment (“COLA”) of 1.85% effective January 1, 2018 for the Metropolitan Toronto Police Benefit Fund (the “Plan”). The information below is usually provided in the Indexation Reserve Account section of the actuarial valuation report for funding purposes. However, the report could not be prepared in time for this submission since the report will need to be prepared on the new regulations impacting the funding rules in Ontario which were only recently published on April 20, 2018.

INDEXATION RESERVE ACCOUNT

General

In 1991 a policy was adopted by the Board that:

- a. assets not required to meet specific current pension liabilities be held in an Indexation Reserve Account (IRA);
- b. the IRA be limited to 30% of the going-concern liability for non-indexed benefits;
- c. the IRA be built up to the maximum before any allocation of surplus be considered; and
- d. minor improvements in pension benefits and increases in pensions due to cost-of-living inflation should be limited to the extent that the IRA is sufficient.

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Indexation Reserve Account

The change in the Indexation Reserve Account during 2017 is outlined below.

		(\$ 000)
Indexation Reserve Account at December 31, 2016		\$5,548
January 1, 2017 cost-of-living increases to pensions		5,548
Indexation Reserve Account at January 1, 2017		\$0
Indexation Reserve Account at December 31, 2017		
a. Going-concern excess (deficiency)	\$44,751	
b. Solvency excess (deficiency)	\$9,954	
Indexation Reserve Account at December 31, 2017 (lesser of (a) and (b) but not less than 0)		\$9,954

Impact of Providing a COLA

If the Board recommends a cost-of-living adjustment of 1.85% to pensions in pay, the impact on the Indexation Reserve Account is illustrated in the table below.

Indexation Reserve Account at December 31, 2017		\$9,954
a. Cost of COLA on going-concern basis	\$8,707	
b. Cost of COLA on solvency basis	\$9,120	
Charge to Indexation Reserve Account (greater of (a) and (b))		(\$9,120)
Indexation Reserve Account at January 1, 2018		\$834

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DATA, METHODS AND ASSUMPTIONS

The data, methods and assumptions are consistent with those used for the preparation of the preliminary actuarial valuation as at December 31, 2017, and as presented to the Trustees of the Metropolitan Toronto Police Benefit Fund on April 16, 2018. As the regulations have recently changed, we note that the going concern excess could change, but not enough to impact the determination of the Indexation Reserve Account as at December 31, 2017. The Indexation Reserve Account is the lesser of the going-concern excess and the solvency excess. The solvency excess is significantly lower than the going-concern excess and the determination of the solvency excess has not been impacted by the new regulations.

If there are any questions, please let us know.

Sincerely,



Armando Fernandes, F.S.A., F.C.I.A.
Senior Associate