TORONTO

REPORT FOR ACTION

Metropolitan Toronto Police Benefit Fund – Preliminary Funding Valuation Report as at December 31, 2018

Date: May 8, 2019
To: General Government and Licensing Committee
From: Controller
Wards: All

SUMMARY

This report submits, for the Committee's information, a Funding Valuation as at December 31, 2018 on the Metropolitan Toronto Police Benefit Fund (the Fund) prepared by Mercer (Canada) Limited. The Fund finances the pension plan (the Plan). This valuation provides information on the cost-of-living increase of 2.22% in pensioner benefits effective January 1, 2019, called for under By-law 116-2018 governing the Plan and the Fund. The By-law contains a consolidation of former governing By-law 181-81, 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, which are incorporated into the 2018 Valuation Report, which sets forth the financial position of the Fund for the year ended December 31, 2018 on Going Concern and Solvency bases, and confirms that the Fund does not require any special payments by the City of Toronto.

The Charts below summarize the financial position of the Fund as at December 31, 2018 and December 31, 2017 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, 2018	December 31, 2017
Assets	$491.0	$515.4
Liabilities	$452.4	$470.7
Surplus / (Deficit)	$38.6	$44.7

Solvency Valuation – This type of valuation assumes that the Plan was wound up on the valuation date (*i.e.,* December 31st, 2018) 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, 2018	December 31, 2017
Assets	$481.5	$502.9
Liabilities	$465.2	$493.0
Surplus / (Deficit)	$16.3	$9.9
	Valuation is being filed with FSCO	Valuation was filed with FSCO

RECOMMENDATIONS

The Controller recommends that:

1. City Council receive this report, including the “Funding Valuation Report as at December 31, 2018” (attached as Attachment 1), prepared by Mercer (Canada) Limited with respect to the Metropolitan Toronto Police Benefit Fund and its underlying Plan.
2. City Council approve, effective January 1, 2019, a total ad-hoc cost-of-living increase of 2.22% in pension benefits to pensioners of the Metropolitan Toronto Police Benefit Plan.
3. City Council amend by-law 116-2018 to provide for an increase, effective January 1, 2019 of 2.22% 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 certified that the criteria specified in the governing by-law for an increase in pensioner benefits has been met, and that there should therefore be a benefits increase of 2.22% as of January 1, 2019. There are no additional payments required to be made by the City in 2019 and none are anticipated in subsequent years, given the expected merger with OMERS in late 2019.

The initial annual estimated cost to the Fund due to the 2019 increase, will be $945,829. This cost was arrived at by applying the 2.22% to an approximated yearly payroll derived from the last monthly pay cycle of 2018.

The Fund Report reflects the estimated actuarial cost (present value) of the 2019 increase in pensioner benefits on a Solvency basis was $8.8 million as at December 31, 2018 and on a Going Concern basis was $8.4 million. The increase will be payable from the assets of the Fund with no contribution required by the City. 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.

As at December 31, 2018, The City administered five (5) pre-OMERS defined-benefit pension plans, with total assets of approximately $1.5 billion. The plans are:

- Corporation of the City of York Employee Pension Plan (**York Plan**)
- Toronto Civic Employees' Pension Plan (**Civic Plan**)
- Metropolitan Toronto Police Benefit Fund (**Police Plan**)
- Metropolitan Toronto Pension Plan (**Metro Plan**)
- Toronto Fire Department Superannuation and Benefit Fund (**Fire Plan**)

It costs the City approximately $1 million per year to provide staff and other administrative resources for the five plans. These costs are included in the 2019 Council approved operating budget.

On January 8, 2019, the York Plan formally merged with OMERS and final efforts are in progress to disperse a small surplus to members. Of the four (4) remaining City-Sponsored plans, the Civic, Police, and Metro Plans are expected to merge with OMERS in October 2019, November 2019, and January 2020, respectively. It is expected that a surplus will exist as a result of each of these 3 mergers and that in 2020, these assets will be dispersed to members and to the City of Toronto as per the terms and conditions of respective surplus sharing agreements that have been signed between the City and a small group of Plan trustees who negotiated on behalf of plan members at large. The Fire Plan and the City of Toronto are not pursuing a merger with OMERS at this time.

These mergers will eliminate possible requirements for special payments 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.

The Chief Financial Officer and Treasurer 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 and the related Plan which it finances, is submitted annually to General Government and Licensing Committee. The last such report was considered by Government Management Committee at its meeting held on June 5, 2018 when it adopted Government Management Committee report GM28.6 titled "Metropolitan Toronto Police Benefit Fund - Preliminary Funding Valuation Report as at December 31, 2017".

Following is the link to the report and decision document:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.GM28.6

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. At or around June 2019, it is expected that a new independent regulatory agency, the Financial Services Regulatory Authority of Ontario (FSRA) will assume the mandates of FSCO, as well as the Financial Services Tribunal (FST) and the Deposit Insurance Corporation of Ontario (DICO).

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.

The Police Plan has, for the most part, had healthy surpluses on a Going Concern basis for most of the last 10 years. While the regulations that came into effect on May 1, 2018 required that an unfunded Going Concern liability be eliminated by employer special payments amortized over a period not exceeding ten (10) years, there will be no such requirement for the City to make special payments this year, nor into the future given the expected merger with OMERS in late 2019.

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.

The Police Plan has had extended periods of deficits on a Solvency basis over the past 10 years, and in fact, dating back to 2004 the City of Toronto has made special payments totalling $96.6 million into the Police Plan. However, for the most recent valuation the Police Plan has a $16.3 million surplus on a Solvency basis. Given that special employer payments are only required if assets are less than 85% of liabilities on this basis, there will be no need for special payments by the City this year, nor into the future given the expected merger with OMERS in late 2019.

The table below shows a history of Going Concern and Solvency Surpluses / Deficits over the past 10 years:

Table 3 – Historical Going Concern and Solvency Surpluses / Deficits for Police Plan ($ millions)		
Effective Date	**Going Concern Surplus / (Deficit)**	**Solvency Surplus / (Deficit)**
December 31, 2009	$11.5	$(22.3)
December 31, 2010	$1.5	$(46.3)
December 31, 2011	$(4.2)	$(66.7)
December 31, 2012	$26.9	$(50.6)
December 31, 2013	$17.7	$(37.3)
December 31, 2014	$70.4	$(57.2)
December 31, 2015	$79.1	$(5.5)
December 31, 2016	$79.7	$26.5
December 31, 2017	$44.7	$9.9
December 31, 2018	$38.6	$16.3
10 year average	**$36.6**	**$(23.3)**

Past History of Cost-of-Living Increases

The Police Plan experienced a 14 year period between cost-of-living increases between 2003 and 2017. Only in recent years has the plan had enough assets to grant a cost-of-living increase without going into Solvency deficit. The table below shows the history of cost-of-living adjustments to the Police Plan over the past 10 years:

Table 4 – Historical Cost of Living Increases for the Police Plan	
Effective Date	**Increase**
January, 2009	0%
January, 2010	0%
January, 2011	0%
January, 2012	0%
January, 2013	0%
January, 2014	0%
January, 2015	0%
January, 2016	0%
January, 2017	1.10%
January, 2018	1.85%

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 historically 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. However, in view of the impending merger with OMERS, the Board recently modified the SIPP to provide for investment of approximately three quarters of the Fund's assets in Canadian short-term bonds as a means of de-risking the existing surplus. Moreover, at its April 18, 2019 meeting, the Board decided to further de-risk its assets and directed City Staff to effect an allocation of 100% of fund to fixed income instruments by June 1, 2019.

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 to be set out as at June 1, 2019 is as follows:

Table 5 - Asset Mix	
Cash & Equivalents	10%
Canadian Money Market Funds	45%
Canadian Short-Term Bonds	45%
TOTAL	100%

The Fund's net rate of return for 2018 was 1.09% compared to 4.40% for 2017.

COMMENTS

The Metropolitan Toronto Police Benefit Fund is one of four (4) pre-OMERS pension plans sponsored by the City of Toronto. It covers 965 retired members, and 663 survivor pensioners.

The Plan’s Actuary, Mercer (Canada) Limited, conducts an annual actuarial valuation of the Plan’s assets and liabilities. The purpose of the valuation 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, 2018, the Fund had smoothed actuarial assets of $491.0 million, actuarial liabilities of $452.4 million and a Going Concern excess of $38.6 million, a decrease of $6.1 million from the excess of $44.7 million as at December 31, 2017. This decrease is primarily as a result of lower-than-expected investment returns.

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, 2018 to satisfy the Fund's obligations. At its meeting held on April 18, 2019, 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 $481.5 million exceeded the Solvency liabilities of $465.2 million, producing a Solvency surplus of $16.3 million (an increase of $6.4 million from the Solvency surplus of $9.9 million as at December 31, 2017). The increase in the Solvency surplus was primarily related to the effects of asset and liability smoothing adjustments as part of the 2018 valuation.

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 2018, having regard to the CPI-linked ceiling in the regulations pertaining to registered pension plans under the *Income Tax Act* (Canada), the Funding Valuation supports a cost-of-living increase effective January 1, 2019 of 2.22% to pensioners. As allowed by the Plan's governing Bylaw, and endorsed by the Board of Trustees at its meeting held on April 18, 2019, a cost-of-living adjustment is called for in respect of 2018 equal to 2.22% effective January 1, 2019.

The estimated actuarial cost of the increase ($8.8 million on a Solvency basis and $8.4 million on a Going Concern basis as at December 31, 2018) will be payable from the assets of the Fund, and will not create a deficit at this time given the Fund's Going Concern excess and Solvency surplus, nor into the future based on the imminent merger with OMERS expected in late 2019.

CONTACT

Hatem Belhi, Director, Pension, Payroll & Employee Benefits
Tel: (416) 397-4143, Fax: (416) 392-9270, E-mail: Hatem.Belhi@toronto.ca

SIGNATURE

Andrew Flynn
Controller

ATTACHMENTS

Attachment 1: The Metropolitan Toronto Police Benefit Fund, Preliminary Funding Valuation Report as of December 31, 2018 (April, 2019)