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TORONTO

REPORT FOR ACTION

Metropolitan Toronto Pension Plan – 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 Pension Plan (the Plan) prepared by Mercer (Canada) Limited. The Plan is financed by The Metropolitan Toronto Pension Fund (the Fund). This valuation provides information on the cost-of-living increase of 2.27% in pensioner benefits effective January 1, 2019, called for under By-law 159-2018 governing the Plan and the Fund. The By-law contains a consolidation of former governing By-law 15-92, 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	$453.1	$478.6
Liabilities	$363.4	$386.4
Surplus / (Deficit)	$89.7	$92.2

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	$445.2	$467.4
Liabilities	$374.5	$400.7
Surplus / (Deficit)	$70.7	$ 66.7
	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 Pension Plan and its underlying Fund.
2. City Council approve, effective January 1, 2019, a total ad-hoc cost-of-living increase of 2.27% in pension benefits to pensioners of the Metropolitan Toronto Pension Plan.
3. City Council amend by-law 159-2018 to provide for an increase, effective January 1, 2019, of 2.27% in current 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 2.27% 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 an expected Merger with OMERS in early 2020.

The initial annual estimated cost to the Fund due to the 2019 increase will be $945,403. This cost was arrived at by applying the 2.27% 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 $8.5 million as at December 31, 2018 and on a Going Concern basis was $8.2 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 Pension Plan ("the Plan") which the Fund finances, is submitted annually to General Government and Licensing Committee. The last such information was considered by Government Management Committee at its meeting held on June 5, 2018 when it adopted Government Management Committee report GM28.3 titled "Metropolitan Toronto Pension Plan - 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.GM28.3

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 (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 Metro plan has had a long history of healthy surpluses on a Going Concern basis, with an average Going Concern surplus of $86.4 million over the past 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 early 2020.

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

Similar to the Going Concern basis, the Metro Plan has traditionally been healthy on a Solvency basis, with an average 10-year surplus of $38.1 million. Given that special employer payments are only required if assets are less than 85% of liabilities on a Solvency 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 early 2020.

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 Metro Plan ($ millions)		
Effective Date	**Going Concern Surplus / (Deficit)**	**Solvency Surplus / (Deficit)**
December 31, 2009	$88.2	$45.6
December 31, 2010	$69.7	$30.2
December 31, 2011	$54.3	$5.6
December 31, 2012	$72.3	$13.4
December 31, 2013	$54.9	$17.3
December 31, 2014	$95.2	$13.9
December 31, 2015	$108.6	$29.7
December 31, 2016	$110.2	$50.2
December 31, 2017	$92.2	$66.7
December 31, 2018	$89.7	$70.7
10 year average	**$86.4**	**$38.1**

Past History of Cost-of-Living Increases

By virtue of its longstanding history of significant Going Concern and Solvency surpluses, the Metro Plan has enjoyed regular cost-of-living increases in 9 of the past 10 years. In 2012 the fund did not have an adequate funds to pay an increase without going into a Solvency deficit. However in 2016 adequate funds existed to pay that year's increase as well as a "catch up" increase reflective of the foregone 2012 increase. It is not a surprise that the Fund has adequate surpluses on both bases to grant a cost-of-living increase effective January 1, 2019. The table below shows the history of cost-of-living adjustments to the Metro Plan over the past 10 years:

Table 4 – Historical Cost of Living Increases for the Metro Plan	
Effective Date	**Increase**
January, 2009	2.37%
January, 2010	0.30%
January, 2011	1.78%
January, 2012	*****0%
January, 2013	1.52%
January, 2014	1.94%
January, 2015	1.91%
January, 2016	*****3.04%
January, 2017	1.43%
January, 2018	1.60%

** While no cost-of-living adjustment was granted effective January 2012, the January, 2016 increase comprised a normal 1.13% increase as well as a "catch up" increase of 1.91% reflective of what would have been granted in January 2012 had adequate funds existed at that time.*

Asset Mix and Investment Returns

The Board of Trustees of the Metropolitan Toronto Pension Plan (the Board) is the “administrator” of the Plan and the Fund 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. 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.

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:

Table 5 - Asset Mix	
Cash & Equivalents	3%
Canadian Bonds	72%
Canadian Equity	7%
U.S. and Other Foreign Equity	18%
TOTAL	100%

The Fund's net rate of return for 2018 was 1.67% compared to 3.92% for 2017.

COMMENTS

The Metropolitan Toronto Pension Plan is one of four (4) pre-OMERS pension plans sponsored by the City of Toronto. It covers 992 retired members, and 807 survivor pensioners and 2 vested deferred pensions.

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 shows, under the new regulations, that at December 31, 2018, the Fund had smoothed actuarial assets of $453.1 million, actuarial liabilities of $363.4 million and a Going Concern excess of $89.7 million, a decrease of $2.5 million from the excess of $92.2 million as at December 31, 2017. This decrease is primarily as a result of lower-than-expected market 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 information on a smoothed basis. The Actuarial Valuation shows that on a Solvency basis, the value of the assets of $445.2 million exceeded the Solvency liabilities of $374.5 million, producing a Solvency surplus of $70.7 million (an increase of $4.0 million from the Solvency surplus of $66.7 million as at December 31, 2017). The increase in the Solvency surplus was primarily a result of the smoothing adjustment that has allowed prior year increases in assets to be realized in this year's 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 Plan'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 2.27% 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 2.27% effective January 1, 2019.

The estimated actuarial cost of the increase ($8.5 million on a Solvency basis and $8.2 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 or into the future given the Fund's Going Concern excess and Solvency surplus.

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 Pension Plan, December 31, 2018 Funding Valuation (April, 2019)