Metropolitan Toronto Pension Plan – Interest on Minimum Pension Increase

Date: September 5, 2008
To: Government Management Committee
From: Treasurer
Wards: All
Reference Number: P:\2008\Internal Services\ppeb\gm08011ppeb (AFS#8159)

SUMMARY

The Board of Trustees of the Metropolitan Toronto Pension Plan has requested that interest be calculated and paid to any member of the Metropolitan Toronto Pension Plan who may be impacted by the improvement of the minimum pension benefit. City Staff does not support this recommendation as it is not permitted by federal legislation.

The Metropolitan Toronto Pension Plan received approval to increase the minimum annual pension for pensioners who are members of the Metropolitan Toronto Pension Plan from $300 to $450 per year of service effective January 2008. The increases are to be calculated and implemented by City Staff as early as practical. City Staff are currently working to calculate these increases including the retroactive payment to January 2008. This adjustment and retroactive payment will be issued no later than December 1st, 2008.

RECOMMENDATIONS

The Treasurer recommends that:

1. City staff continue to work diligently to ensure that the minimum pension is calculated and implemented as early as practical and no later than December 1, 2008.

2. City Council not approve the Metropolitan Toronto Pension Plan Board of Trustees recommendation to apply interest to the retroactive pension payments as it is not permitted by federal legislation.
Financial Impact
There are no financial implications arising from this report.

DECISION HISTORY
At its meeting of November 19, 2007, City Council adopted Government Management Committee Report No. 9.5 from the Treasurer entitled Metropolitan Toronto Pension Plan – Increase in Minimum Pension and approved the following recommendations:

1. Effective January 1, 2008, the minimum pension payable to eligible pensioners of the Metropolitan Toronto Pension Plan be increased from $300.00 per year of service to $450.00 per year of service, limited to 30 years.
2. The estimated cost of $8.0 million be funded from the Plan’s 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. The appropriate City officials be authorized to take the necessary action to give effect to the foregoing.


ISSUE/BACKGROUND
The Metropolitan Toronto Pension Plan (“the Plan”) is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers 12 active members, 6 deferred members, 2,062 retired members and 1,050 survivor pensioners and is administered by a Board of Trustees (“the Board”).

At its meeting of September 25, 2007, the Board of Trustees received a report from the actuary based on an earlier request regarding the minimum pension. A minimum pension is the amount payable to a pensioner where the amount otherwise calculated under the pension formula is below a certain threshold. The current minimum pension of $300 per year of service to a maximum of 30 years provides long service members a minimum pension of $9,000 per year and surviving spouses of long service members a minimum pension of $6,000 per year (i.e., 2/3 of $9,000). This minimum pension was implemented under By-law No 81-92 effective June 17th, 1992 and has not, until January 2008, been adjusted since that time. Cost of living increases have been granted from 1993 up to and including 2007 increasing the minimum pension to $392.

COMMENTS
The Board approved the increase in the minimum pension, effective January 1, 2008, to $450 per year of service which would provide long service members with a minimum pension of $13,500 per year and surviving spouses of long service members a minimum pension of $9,000 (i.e., 2/3 of $13,500). This increase will affect approximately 784 pensioners and survivors; who will see their pension increase by an average of $98 per month.
The Plan through a combination of prudent financial management, investment diversification and strong investment returns, has succeeded in building sufficient assets to meet all its current liabilities to pensioners. The Plan remains well funded, therefore the Board and City Council both approved this increase.

The Board has since decided that interest should be paid, retroactive to January 2008, to any pensioner or survivor who will be impacted by this pension improvement and that this recommendation be forwarded to City Council for approval. City staff does not support this recommendation for the following reasons:

- The payment of interest on retroactive pension amounts is not allowable by the Canada Revenue Agency (CRA) as there are no provisions in the Income Tax Act to pay interest on retroactive pension payments. If City staff were to make a formal request for approval from CRA we have been advised that it would not be granted.
- The minimum pension improvement was approved by Council in January 2008 and all payments will be processed no later than December 1, 2008.
- It has not been the practice of the Boards of Trustees of the pension plans to pay interest on any retroactive pension payments. As an example, in any year when the cost of living adjustment is approved, it is implemented on July 1st and the retroactive payment is also issued in July, retroactive to January, interest has never been paid on the retroactive amount.
- The calculation and payment of the minimum pension improvement must be done by City Staff. The calculation is complex and must be done manually, one file at a time. Additional resources are not available.
- If interest were to be applied to the retro payments we would use the fund performance as of June 30, 2008. As the fund performance for the first half of 2008 is 0%, no interest would be payable.

CONTACT
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SIGNATURE

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Cam Weldon
Treasurer