City Clerk's Office
Ulli S. Watkiss, City Clerk

Secretariat
Merle MacDonald
Government Management Committee
City Hall, 10th Floor, West
100 Queen Street West
Toronto, Ontario M5H 2N2

Tel: 416-392-7340
Fax: 416-392-1879
Email: gmc @toronto.ca
Web: www.toronto.ca

Date: May 2, 2011

To: Executive Committee

From: Government Management Committee

Subject: **The Corporation of the City of York Employee Pension Plan – Actuarial Report as at December 31, 2010 – GM3.4**

Recommendations:

The Government Management Committee recommends to the Executive Committee that:

1. **City Council receive the report on the "Actuarial Valuation for Funding Purposes as at December 31, 2010" prepared by Mercer Human Resource Consulting with respect to The Corporation of the City of York Employee Pension Plan.**

2. **City Council approve a Non-Program Operating Budget increase of $143,730 gross and $0 net resulting in total contribution of $1,614,834 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund in order to fund the additional going-concern unfunded liability and the additional solvency deficiency which developed in 2010.**

3. **City Council approve a Non-Program Operating Budget increase of $988 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund for interest payments to the Plan which are required because the increase in special payments will not be processed until July 1, 2011.**

4. **City Council approve special annual payments to the Plan's Fund of $1,517,741 for 2012, $872,640 for 2013, $543,624 for 2014 and, $148,608 for 2015 for the going-concern unfunded liability and the solvency deficiency.**

5. **City Council authorize the appropriate City officials to take the necessary action to give effect to the foregoing recommendations.**

Background

The Government Management Committee at its meeting on May 2, 2011, considered a report (April 14, 2011) from the Treasurer respecting The Corporation of the City of York Employee Pension Plan – Actuarial Report as at December 31, 2010.

The Government Management Committee also considered a letter (April 15, 2011) from the City of York Employee Pension Plan Committee.

City Clerk

Merle MacDonald/mk

GM3.4

Background Information

(April 14, 2011) The Corporation of the City of York Employee Pension Plan - Actuarial Report as at December 31, 2010
(http://www.toronto.ca/legdocs/mmis/2011/gm/bgrd/backgroundfile-37515.pdf)
March 2011, The Corporation of the City of York Employee Pension Plan, Report on the Actuarial Valuation for Funding Purposes as at December 31, 2010
(http://www.toronto.ca/legdocs/mmis/2011/gm/bgrd/backgroundfile-37516.pdf) (April 15, 2011) The Corporation of the City of York Employee Pension Plan - Actuarial Valuation for Funding Purposes as at December 31, 2010
(http://www.toronto.ca/legdocs/mmis/2011/gm/bgrd/backgroundfile-37517.pdf)

TORONTO

STAFF REPORT
ACTION REQUIRED

The Corporation of the City of York Employee Pension Plan – Actuarial Report as at December 31, 2010

Date:	April 14, 2011
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2011\Internal Services\ppeb\gm11004ppeb (AFS12598)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2010 for the Corporation of the City of York Employee Pension Plan (the Plan) and requests additional funding in the form of special annual payments to the Plan's fund as required under Ontario pension legislation with respect to the solvency and going-concern funding deficiencies.

The 2010 Valuation sets forth the financial position of the Plan for the year ended December 31, 2010 on both a going concern and solvency basis. The report outlines both a going-concern unfunded liability for the Plan and a solvency deficiency, and provides an amortization schedule of payments required to eliminate the unfunded liability within the mandatory fifteen (15) years and the deficiency within the mandatory five (5) years. As a result of the financial position of the Plan, staff are recommending that no cost-of-living increase be provided to pensioners in 2011.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive the report on the "Actuarial Valuation for Funding Purposes as at December 31, 2010" prepared by Mercer Human Resource Consulting with respect to The Corporation of the City of York Employee Pension Plan.

2. City Council approve a Non-Program Operating Budget increase of $143,730 gross and $0 net resulting in total contribution of $1,614,834 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund in order to fund the additional going-concern unfunded liability and the additional solvency deficiency which developed in 2010.

3. City Council approves a Non-Program Operating Budget increase of $988 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund for interest payments to the Plan which are required because the increase in special payments will not be processed until July 1, 2011.

4. City Council approve special annual payments to the Plan's Fund of $1,517,741 for 2012, $872,640 for 2013, $543,624 for 2014 and, $148,608 for 2015 for the going-concern unfunded liability and the solvency deficiency.

5. Government Management Committee forward this report to the Executive Committee for adjustment of the 2011 Non-Program Operating Budget accordingly.

6. City Council authorize the appropriate City officials to take the necessary action to give effect to the foregoing recommendations.

Financial Impact

As a result of the Actuarial Valuations for 2009 and previous years, the City of Toronto was required to make special annual payments to the Plan's fund in the amount of $1,471,104 for 2010 and $1,471,104 in 2011.

The 2010 Actuarial Valuation reveals that the City is required to continue to make special payments as required under the *Pension Benefits Act* (PBA), because of the solvency and going-concern positions of the Plan. As a result, the City of Toronto is required to make special payments for 2011 to a minimum of $1,615,822, which includes the required interest. Interest is owing because the increase in special payments for 2011 did not begin on January 1; it has been calculated using a rate of 4.625%, which is the annuity rate used for the solvency valuation, and will amount to $988 as at July 1st, 2011.

Funding for these special annual payments will come from the Employee/Retiree Benefits Reserve Fund. For 2011, $1,471,104 has been budgeted from this Reserve. Therefore, there is an additional 2011 budget of $144,718 required as a result of the new annual special payment and interest requirements resulting from the 2010 Actuarial Valuation. Through this report, staff is asking Council for authorization to adjust the 2011 Non-Program Operating Budget accordingly.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact.

DECISION HISTORY

The Actuarial Valuation Report of the City of York Employee Pension Plan (the Plan) is submitted annually to Council. The last such report was considered by City Council at its meeting held on July 6, 7 and 8, 2010, when it adopted Executive Committee Report Meeting No. EX45.18 "The Corporation of the City of York Employee Pension Plan – Actuarial Report as at December 31, 2009".

Following is the link to the report and decision document:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.EX45.18

ISSUE BACKGROUND

The Corporation of the City of York Employee Pension Plan (the Plan), whose terms are set forth in Schedule "A" to By-law No. 3349-96 of the former City of York as amended, is one of five pre-OMERS plans sponsored by the City of Toronto. It covers 142 retired employees and 96 survivor pensioners. There are no longer any active employees in the Plan. The Plan's administrator is the York Employees' Pension and Benefit Committee (the Benefit Committee).

Pension plans are governed by the *Pension Benefits Act* (PBA) and regulated through the Financial Services Commission of Ontario (FSCO). The FSCO is an arm's-length agency of the Ontario Ministry of Finance, which is responsible for the administration and enforcement of the PBA and regulations under the Act. The PBA establishes the minimum standards for registered pension plans, and the regulations under it require the preparation and filing (at least every three years) of an Actuarial Valuation of 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.

<u>Going-concern valuation</u>: assumes that the plan will be ongoing for an indefinite period of time. The valuation predicts how liabilities and assets are likely to accumulate in the future. A going-concern comparison of the plan's projected performance with its actual performance over the past three (3) year period can generate either a going concern surplus (if the valuation shows the plan to be over-funded) or an "unfunded liability" (if the valuation shows the plan to be under-funded). An

unfunded liability on a going-concern basis must be eliminated by the employer by one or more special payments, which may be amortized over a period not exceeding fifteen (15) years.

Solvency valuation: assumes that the plan was wound up on the Valuation Date with all amounts coming due (*i.e.*, as if its assets had been used to meet its existing liabilities, including the purchase of annuities for its pensioners and unretired members). If a plan had greater assets than liabilities on a solvency basis on the Valuation Date, it has an actuarial surplus. If there were more liabilities than assets the plan has a "solvency deficiency" and, in order to comply with the PBA, that deficiency must be eliminated by the employer by one or more special payments which may be amortized over a period of no longer than five (5) years.

Actuarial valuation reports must be filed with FSCO and the Canada Revenue Agency (CRA) every three (3) years, unless at the end of any year a plan has a going-concern unfunded liability or a solvency deficiency in excess of 10% (i.e. the plan is less than 90% funded) in which case it must be filed each year, until the deficiency is eliminated.

Asset Mix and Investment Returns
Given the demographics of the Plan members, the Benefit Committee invests the assets of the Plan's fund conservatively in a well-diversified portfolio of equity and fixed-income securities. The Committee monitors the investments prudently in accordance with a Statement of Investment Policies and Procedures which it reviews annually.

The target asset mix of the fund as set out in the Statement of Investment Policies & Procedures is as follows:

Asset Mix	
Cash & Equivalents	0%
Bonds	50%
Canadian Equity	25%
U.S. and Other Foreign Equity	25%
TOTAL	**100%**

As a result of the recovery of the financial markets and the Plan's investment strategy, the annual market rate of return net of expense in 2010 was 8.39%.

COMMENTS

The Plan's Actuary, Mercer Human Resources Consulting, conducts an Actuarial Valuation of the Plan's assets and liabilities and recently submitted to the Benefits Committee its actuarial report for 2010. The purpose of the valuation was to determine:

(a) the financial position of the Plan as at December 31, 2010 on both a going-concern and solvency basis; and

(b) the minimum funding requirements by the City and the Plan members during the 2011 calendar year.

Going-Concern Valuation

The Valuation shows that at December 31, 2010, the Plan had actuarial assets of $49.8 million, pension liabilities of $50.2 million, and a going-concern unfunded liability of $0.4 million (an improvement over the unfunded liability of $0.8 million a year earlier).

Solvency Valuation

As part of the Actuarial Valuation, the Actuary also completed a solvency valuation by comparing the Plan's assets at market value smoothed over four years with what it would have cost to satisfy the Plan's obligations by winding it up and purchasing annuities using a discount rate that is also smoothed over four years. The valuation shows that on such a basis, at December 31, 2010, the adjusted value of the assets was $49.1 million and the adjusted value of the liabilities was $53.5 million thus producing a smoothed solvency deficiency of $4.4 million. The previous valuation as at December 31st, 2009 had indicated a smoothed solvency deficiency of $5.2 million. The improvement in the solvency positions ($5.2 million to $4.4 million) since the last valuation is due to special contributions made by the City and market returns.

The City, as plan sponsor, is required to continue making special payments to the Plan until the going-concern unfunded liability and the solvency deficiency are eliminated.

The solvency deficiency of $4.4 million shown in the 2010 Actuarial Valuation must be eliminated within the five years following 2010. For a full five-year amortization, the City of Toronto must make the following special payments on account of the solvency deficiency:

Year	Special Payment
2011*	$1,615,822
2012	$1,517,741
2013	$872,640
2014	$543,624
2015	$148,608
TOTAL	**$4,698,435**

*The 2011 special payment includes$1,614,834 to fund the solvency deficiency and $988 in interest.

The 2010 Valuation Report of the plan outlines the difficult financial position of the Plan for the year ended December 31, 2010. As a result, the Plan continues to require special funding from the City. It should be noted, there has been an improvement in both solvency position and going-concern position since the previous valuation but this is primarily as a result of the special payments that the City has been required to make.

Cost-of-Living Increases

Plan members have not received a cost-of-living increase since 2001 under the Plan's post retirement adjustment provisions, as a result of its poor financial position. Given the City's obligation as the Plan sponsor to make special payments to eliminate the going-concern unfunded liabilities and the solvency deficiencies in the intervening years, there have been no *ad hoc* increases provided to pensioners.

The City of Toronto and former City of York, as the Plan Sponsor has had to make special payments to the Plan to eliminate deficiencies since 1990. To date, these special payments have totalled $48,140,320 million. As a result of the financial position of the Plan as at December 31, 2010, the City will be required to make additional payments over the next 5 years totalling $4,698,435. As a result, by the end of 2015, the City will have made total special payments equalling $52,838,755 million.

Plan members have expressed concern over the lack of cost-of-living increases for the past number of years. However, given the current financial position of the Plan, the Actuarial Valuation does not support a cost-of-living increase for 2011 which would entail a corresponding increase in the City's special payments. As outlined above, given the significant amount of special payments that have been made by the City since 1990 and will continue to be made in future years, it is not feasible for the City to incur any additional cost with respect to granting cost-of-living increases until such time as the Plan is fully solvent and the City of Toronto no longer makes special payments.

The Pension Committee at its meeting held on April 14, 2011 approved the 2010 Actuarial Valuation report and requested that this report be forwarded to Council for its information.

CONTACT

Celine Chiovitti, Director, Pension, Payroll & Employee Benefits
Tel: (416) 397-4143, Fax: (416) 397-0835, cchiovit@toronto.ca

SIGNATURE

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Giuliana Carbone
Treasurer

ATTACHMENTS

March 2011, The Corporation of the City of York Employee Pension Plan, Report on the Actuarial Valuation for Funding Purposes as at December 31, 2010