TORONTO

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Date: May 2, 2011

To: Executive Committee

From: Government Management Committee

Subject: **Metropolitan Toronto Police Benefit Plan – Actuarial Report as at December 31, 2010 – GM3.5**

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 Metropolitan Toronto Police Benefit Plan.**

2. **City Council approve a Non-Program Operating Budget increase of $3,350,400 gross and $0 net resulting in total contribution of $12,987,600 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund beginning on July 1, 2011 in order to fund the solvency deficiency of the Plan on the basis of the 2010 Actuarial Valuation.**

3. **City Council approve a Non-Program Operating Budget increase of $22,272 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund for interest payments which are required as 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 in the amount of $12,987,600 for the solvency deficiency in each of the years 2011-2013, $8,334,000 in 2014, and $3,350,400 in 2015.**

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 11, 2011) from the Treasurer respecting The Metropolitan Toronto Police Benefit Plan – Actuarial Report as at December 31, 2010.

The Government Management Committee also considered a letter (March 30, 2011) from the Board of Trustees of the Metropolitan Toronto Police Benefit Fund.

City Clerk

Merle MacDonald/mk

GM3.5

Background Information

(April 11, 2011) Attachment - Metropolitan Toronto Police Benefit Plan - Actuarial Report as at December 31, 2010
(http://www.toronto.ca/legdocs/mmis/2011/gm/bgrd/backgroundfile-37518.pdf)
March 2011, Metropolitan Toronto Police Benefit Fund, Report on the Actuarial Valuation for Funding Purposes as at December 31, 2010 - Attach Valuation
(http://www.toronto.ca/legdocs/mmis/2011/gm/bgrd/backgroundfile-37519.pdf)
(March 30, 2011) Letter - Metropolitan Toronto Police Benefit Fund - Actuarial Valuation as at December 31, 2010
(http://www.toronto.ca/legdocs/mmis/2011/gm/bgrd/backgroundfile-37522.pdf)

TORONTO

STAFF REPORT
ACTION REQUIRED

Metropolitan Toronto Police Benefit Plan – Actuarial Report as at December 31, 2010

Date:	April 11, 2011
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2011\Internal Services\ppeb\gm11001ppeb (AFS12597)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2010 for the Metropolitan Toronto Police Benefit Plan (MTPBP) and requests additional funding in the form of special annual payments as required under Ontario pension legislation when a plan has a "solvency deficiency".

The 2010 Valuation sets forth the financial position of the Benefit Plan for the year ended December 31, 2010 on both a going-concern and solvency basis, outlines its solvency deficiency at that date, provides an amortization schedule for eliminating the deficiency within the mandatory five (5) years and recommends no cost-of-living increase for pensioners for 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 Metropolitan Toronto Police Benefit Plan.

2. City Council approve a Non-Program Operating Budget increase of $3,350,400 gross and $0 net resulting in total contribution of $12,987,600 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund beginning on July 1, 2011 in order to fund the solvency deficiency of the Plan on the basis of the 2010 Actuarial Valuation.

3. City Council approve a Non-Program Operating Budget increase of $22,272 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund for interest payments which are required as 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 in the amount of $12,987,600 for the solvency deficiency in each of the years 2011-2013, $8,334,000 in 2014, and $3,350,400 in 2015.

5. Government Management Committee forward this report to the Executive Committee for adjustment of the 2010 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 2009 valuation report, the City of Toronto was required to make special annual payments to the Fund of the Benefit Plan in the amount of $5,425,800 for 2009 and $9,637,200 in 2010.

The 2010 Actuarial Valuation shows deterioration in the solvency position of the Benefit Plan. As a result, the City of Toronto is required to increase the special payments for 2011 to a minimum of $13,009,872, which includes required interest. Interest is owed because the increase in special payments for 2010 did not begin on January 1; it has been calculated using a rate of 4.625%, which is the discount rate used for the solvency valuation, and will amount to $22,272 as at July 1st, 2011.

Funding for these special annual payments will come from the Employee/Retiree Benefits Reserve Fund. For 2011, $9,637,200 has been budgeted from this Reserve. Therefore, there is an additional 2011 budget of $3,372,672 required as a result of the new annual special and interest payment 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 information.

DECISION HISTORY

The Actuarial Valuation Report of the Metropolitan Toronto Police Benefit Plan is submitted annually to Council. The last such report was considered by Council at its meeting held on July 6, 7 and 8, 2010 when it adopted Executive Committee Meeting Report EX45.17 "Metropolitan Toronto Police Benefit Fund – 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.EX45.17

ISSUE BACKGROUND

The Metropolitan Toronto Police Benefit Plan is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers 6 officer members, 1,335 retired officers and 727 survivor pensioners. The plan's Administrator is the Metropolitan Toronto Police Benefit Plan Board of Trustees ("the Board of Trustees").

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.

Going-concern valuation: 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 the 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 of the Fund
Given the demographics of the plan members, the Board of Trustees invests the Fund's assets conservatively in a well-diversified portfolio of equity and fixed-income securities. The Board monitors the investments prudently, with advice from the investment advisors retained by it 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 and Procedures is as follows:

Asset Mix	
Cash & Equivalents	5%
Bonds	45%
Canadian Equity	30%
U.S. and Other Foreign Equity	20%
TOTAL	**100%**

The 2010 market rate of return net of expense was 10.58%.

COMMENTS

The Benefit Plan's Actuary, Mercer Human Resources Consulting, conducts an annual actuarial valuation of the Benefit Plan's assets and liabilities and recently submitted to the Board of Trustees, its actuarial valuation report for 2010. The purpose of the valuation is to determine:

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

b. the minimum funding requirements by the City during the 2011 calendar year.

Going-Concern Valuation
The Valuation shows that at December 31, 2010, the Benefit Plan had actuarial assets of $545.8 million, liabilities of $544.3 million and a going-concern excess of $1.5 million, down from a funding excess of $11.5 million as at December 31st, 2009. This decline is primarily the result of net experience losses due to the performance of the plan, partially offset by employer contributions to fund the solvency deficiency.

Solvency Valuation
As part of the Actuarial Valuation, the actuary completed a solvency valuation comparing the Plan's assets at market value smoothed over four years with what it would cost to satisfy the pension

obligations by winding up the plan and purchasing annuities using a discount rate that is also smoothed over four years. The report shows that on such a basis, the value of the assets of $538.7 million was less than the actuarial liabilities of $585.0 million, producing a total solvency deficiency of $46.3 million as at December 31, 2010. The previous valuation as at December 31st, 2009 had indicated a solvency deficiency of $39.3 million. The deterioration in the solvency position is again due primarily to worse than expected performance of the assets.

The solvency deficiency of $46.3 million shown in the 2010 Actuarial Valuation must be eliminated within the five (5) 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*	$13,009,872
2012	$12,987,600
2013	$12,987,600
2014	$8,334,000
2015	$3,350,400
TOTAL	**$50,669,472**

*The 2011 special payment includes $12,987,600 to fund the solvency deficiency and $22,272 in interest.

The 2010 Valuation Report of the Plan outlines the difficult financial position of the Plan for the year ended December 31, 2010.

Cost-of-Living Increases
Plan members have not received a cost-of-living increase since 2003, since the Plan had a solvency deficiency at the end of that year and has had a solvency deficiency at the end of every year since. From 2004 onward, the City of Toronto, as the Plan Sponsor, has had to make special payments to the Plan to eliminate those deficiencies. The chart below outlines the total special payments made by the City since:

Year	Special Payment made by City
2004	$704,000
2005	$12,467,000
2006	$12,306,000
2007	$4,907,000
2008	$2,417,000
2009	$5,880,000
2010	$9,637,200
Total	**$48,318,200**

As reflected in this report, by 2015, the City of Toronto will have made a total of $93,987,672 in special payments to the Fund of the Plan in order to deal with solvency deficiencies since 2004.

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. In addition, as outlined above, given the significant amount of special payments that have been made by the City since 2004 and will continue to be made over the next few 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 Board, at its meeting on March 30, 2011, approved the recommendation of the actuary that no cost-of-living increase be provided to pensioners in 2011 and received the valuation report outlining the special payment requirements of the City of Toronto.

CONTACT

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SIGNATURE

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Giuliana Carbone
Treasurer

ATTACHMENTS

March 2011, Metropolitan Toronto Police Benefit Fund, Report on the Actuarial Valuation for Funding Purposes as at December 31, 2010