TORONTO

STAFF REPORT
ACTION REQUIRED

City Sponsored Pre-OMERS Pension Plans and the Toronto Transit Commission (TTC) Pension Fund Society

Date:	April 13, 2011
To:	Government Management Committee
From:	Treasurer
Wards:	**All**
Reference Number:	P:\2011\Internal Services\ppeb\gm11007ppeb (AFS13545)

SUMMARY

This report provides information on the five (5) City Sponsored Pre-OMERS Pension Plans and the TTC Pension Fund Society, including the rationale for the existing structure of the Pension Plans, the financial position of the Plans, estimated employer costs required under the *Pension Benefits Act* (PBA) and the City's cost to administer the Plans. In addition, the report discusses options being reviewed by staff with regard to the management and administration of these Plans.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council request the Treasurer to continue researching and evaluating options with respect to the management and administration of the five (5) City Sponsored Pre-OMERS Pension Plans and report back to the Government Management Committee once the required Regulations are filed and the evaluation of options is complete.

2. City Council request the Toronto Transit Commission to conduct an evaluation of options available to the TTC Pension Fund Society and report back to the Government Management Committee once the evaluation is complete.

Financial Impact
There are no financial implications arising out of this report.

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

DECISION HISTORY
At its meeting held on February 23 and 24, 2011, City Council, in approving the 2011 Operating Budget, adopted the following motion:

"83.1 That, given the increasing operating costs associated with pension funds in today's economy, City Council request the Deputy City Manager and Chief Financial Officer to report to the Government Management Committee with a list of all internally managed and TTC pension funds, such report to include the following:

1. A general description of the funds;
2. The rationale for the internal management of the funds;
3. The annual cost of managing the funds;
4. The number of City and TTC paid staff involved; and,
5. Potential alternatives for moving their management to external organizations."

Following is the link to the Council decision:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX3.4 (re: motion 83.1 on page 23 of 44).

ISSUE BACKGROUND
Pension plans are governed by the *Pension Benefits Act* (PBA) and regulated by the Financial Services Commission of Ontario (FSCO) and the Superintendent of Financial Services (Superintendent). The PBA, and the regulations under the Act, establish the minimum standards for administering and funding registered pension plans covering a variety of issues including disclosure of information to plan members; preparation and filing of actuarial valuations; allocation and entitlement to surplus; pension wind-up authority and requirements; obligation and responsibilities of plan administrators and plan sponsors; rights and obligation of members; asset transfer parameters; constitution and powers of the regulator (*i.e.*, FSCO).

The FSCO is an arm's-length agency of the Ontario Ministry of Finance and the Superintendent is responsible for the administration and enforcement of the PBA and its regulations, for monitoring the financial status of pension plans, and for ensuring that plans are administered and funded in compliance with the legislation. The FSCO acts as an oversight body to ensure that registered Pension Plans comply with the minimum standards set-out in the PBA and protects the public interest.

Most municipal employees in Ontario hired after July 1, 1968 participate in the Ontario Municipal Employees Retirement System (OMERS), a multi-employer pension plan established by an Act of the Ontario Legislature. Prior to 1968, some of the former municipalities within Toronto had previously established, by by-law, independent pension plans for their employees which continue to be registered under the PBA. In total, the City sponsors five (5) Pre-OMERS pension plans. All five (5) plans are single-employer, defined benefit plans under which the pension benefit received by plan members at retirement is determined or "defined" by a formula based on years of credited service and earning as outlined in the governing by-law.

The Toronto Transit Commission (TTC) sponsors the TTC Pension Fund Society (Society) which was founded pursuant to a collective agreement and established by letters patent on January 3, 1940, as a separate legal entity from the Toronto Transit Commission, and it is registered as a pension plan under the PBA. The board of directors of the Society consists of representatives of the TTC itself and the employees' collective bargaining agent.

Legislated Pension Reform

To address recommendations made in the Ontario Expert Commission on Pensions (OECP) report of 2008, the Ontario Government recently made changes in the pension legislation by enactment of the *Pension Benefits Amendment Act, 2010* and the *Securing Pension Benefits Now and for the Future Act, 2010*. The existing statutory Regulations have been expanded, however additional Regulations have yet to be filed. The changes are intended to strengthen the pension accountability and funding rules, protect members of single-employer pension plans (SEPPs), and provide solvency relief to Jointly Sponsored Pension Plans (JSPPs) and "Target Benefit Multi-Employer Pension Plans (MEPPs). Target Benefit Plans allow for a reduction of the benefits, if the financial position of the Plan cannot support the benefit amounts. Specifically, the changes are intended to:

- strengthen required contributions;
- provide an improved framework for contribution holidays;
- clarify surplus entitlements;
- address pension plan mergers;
- modify funding requirements for JSPP’s and Target Benefit MEPPs;
- make the Pension Benefits Guarantee Fund more sustainable;
- provide temporary solvency funding relief for certain pension plans in the broader Public Sector, including municipalities;
- eliminate partial wind-ups;
- expand grow-in rights;
- introduce rules allowing for streamlined asset transfers and plan mergers.

It should be noted that many of the reforms will not impact the five (5) City Sponsored pre-OMERS Pension Plans, as they are closed plans with no new members or contributions. However, clarification through regulations, on issues such as pension plan mergers and surplus entitlements will impact any review of alternate delivery models with respect to the pre-OMERS Pension Plans. For example, regulations may deal with issues such as requirements for member notification, requirement for funding of deficiencies during a merger, approval of mergers by the Regulator, etc.

COMMENTS

City Sponsored Pre-OMERS Pension Plans

The City sponsors the five (5) Pre-OMERS pension plans (Plans) established by by-law by the Councils of the former Metropolitan Toronto, city of Toronto and city of York:

1. Metropolitan Toronto Pension Plan (MTPP or Metro)
2. Metropolitan Toronto Police Benefit Plan (MTPBF or Police)
3. The Corporation of the City of York Employee Pension Plan (York)
4. Toronto Civic Employees' Pension & Benefit Plan (Civic)
5. Toronto Fire Department Superannuation and Benefit Plan (Fire).

The Plans, described in Attachment 1, have only 13 active members and approximately 7,367 retirees and surviving spouses. The plans are closed and no new members may be enrolled. All employees/retirees covered by the Plans were hired prior to July 1, 1968. There are no regular contributions being made into the funds of the plans by employees since all remaining employees in the Plans have attained 35 years of credited service, although special payments are being made by the City into the funds of two of the Plans, as required by the PBA, to eliminate actuarially-determined funding deficits. The average age of pensioners in the Plans is 77, and on average 80% of pensioners have spouses. It is fair to assume that these closed Plans will continue to have a requirement to pay pension benefits, although at a continuingly dwindling level, for at least the next 30 or more years.

The Plans are comparable to the Ontario Municipal Employees Retirement System (OMERS) with respect to plan design (they are all defined benefit plans) and municipal employee plan membership. However, the Plans differ with respect to the automatic annual increase which OMERS provides for its pensioners, which matches any increase in the Canadian Consumer Price Index (CPI), subject to carry-over to the next year for any increase greater than 6%. Cost-of-Living adjustments for pensioners of the City's Pre-OMERS Plans are not automatic. Three of the Plans (Civic, Fire and York) provide for automatic cost-of-living increases, depending on preconditions specified in each of the By-Laws, including a sufficient investment return. If the Plan's do not meet the preconditions in a particular year, the Boards/Committees can still bring forward recommendations to Council for consideration of an *ad*-hoc increase. In addition, the other two Plans (Metro & Police) allow the Boards/Committees to bring forward recommendations to Council for consideration of an *ad-hoc* increase, depending on the financial status of the Plan.

The three Plans that still having some active members now limit the use of actuarial surplus (*i.e.*, the value of assets beyond those required to cover the present value of a plan's liabilities) to improved pension benefits, including cost-of-living adjustments. The

Regulations under the *Income Tax Act* limit pensioner improvements to CPI increases, although catch-ups to unmatched past CPI increases are permitted.

The PBA also permits surplus to be paid out of a plan prior to wind-up if the employer and a sufficient number of members/pensioners enter into an agreement to that effect. The incentive for members/pensioners to do so would be payment of part of the surplus to them.

City Council has no authority to withdraw any surplus money unilaterally for use outside of a Plan.

Administration and Management of the Plans

The governing by-law of each Plan defines:

- composition and duties of the administrator;

- provisions of the Plan (*e.g.*, those originally eligible to join the Plan (no new members have been permitted after June 30, 1968) and under what conditions; the rights and obligation of Plan members; how the Plan is to be funded);

- benefits payable to members of the Plan and their eligible survivors.

In accordance with the by-laws, each Plan is managed by a separate administrator known as either a “Pension Committee” (Civic; Fire; York) or a “Board of Trustees” (Metro; Police). Each Committee or Board is composed of employee/pensioner representatives and employer/City representatives and is accountable for the administration and management of the Plan and the investment of its assets. Additionally, the City's Treasurer must be represented at each Committee/Board meeting and is a voting member of three of the administrators (Civic, Fire and York) and is a non-voting member of the administrators of the Metro and Police Plans.

Four of the five pension plan by-laws (Civic, Fire, Metro and Police) provide for an honorarium to be paid to the Chair. The cost of the honorarium for Civic and Fire are paid from the assets of the respective Plan. For Metro and Police, the by-law requires the City to cover the cost of the honorarium. There is no honorarium requirement for the Chair of the York Committee, whose Chair is customarily a member of City Council.

Attachment 1 includes a description of the Board/Committee composition for each of the five (5) Plans.

Each administrator has a fiduciary responsibility to direct and manage the affairs of the plan, including the investment of Plan assets, in accordance with the applicable legislation, the governing by-law, and in the best interests of the Plan beneficiaries and the City. The administrator may hire service providers (*e.g.*, investment managers, actuaries) to assist with meeting its obligations; however, the administrator is ultimately responsible and accountable for the administration and management of its Plan, and the investment of assets. Responsibilities of the administrator include:

(a) pension administration (including payment of pensions);

(b) investment of plan assets (including establishing investment policies and objectives, determining an investment approach, and selecting investment managers);

(c) ensuring that annual financial statements are prepared and audited;

(d) financial reporting (including monitoring of financial statements and actuarial valuations) and compliance with all reporting and notification requirements under the PBA and the *Income Tax Act.*

Each of the five pension boards has retained:

- a firm of actuaries to perform actuarial valuations of the Plan's assets and liabilities, as required, advise the Board/Committee on various pension issues including financial status, notifying the Board/Committee of changes in the rules and regulations governing the Plans;

- investment consultants to advise the Board/Committee on various investment issues including asset-mix policy, rebalancing policy (to cover significant variations from the adopted asset mix as a result of changes in market value and/or cash withdrawals to pay pension benefits), manager selection and annual review of the Statement of Investment Policy and Procedures;

- investment managers to manage the assets of the Plan in a prudent manner and in accordance with the Statement of Policy and Procedures, and to provide reports and meet with the Board/Committee as requested ; and,

- custodial services to maintain safe custody of the assets of the Plans execute the written instructions of the Board/Committee and provide appropriate reporting.

The City's external auditors audit the financial statements of each Plan annually in accordance with professional standards and communicate any issues back to the Board/Committee.

Each Plan is responsible for payment of its own direct costs as defined in the individual by-laws, including actuarial costs and investment management fees. Table 1, below, summarizes the estimated annual costs paid for by the Plans for managing the funds.

Table 1: Estimated Annual Costs Borne by the Pension Plans (based on 2010)

	Civic	Fire	York	Metro	Police	Total
Actuarial Service	$51,000	$51,000	$45,000	$222,000	$216,000	$585,000
Investment Consultants	$86,000	$76,000	$45,000	$47,000	$46,000	$255,000
Custodial Services	$36,000	$364,000	$0	$24,000	$10,000	$434,000
Investment Management	$827,000	$764,000	$143,000	$808,000	$1,361,000	$3,903,000
Board Honorarium	$7,500	$12,000	$0	$0	$0	$19,500
Total	**$1,007,500**	**$1,267,000**	**$233,000**	**$1,101,000**	**$1,633,000**	**$5,196,500**

Administrative and Operational Support Provided by City Staff

In addition to the investment and actuarial costs borne by the Plans, the by-laws require certain services to be provided to each of the Plans by the City. The City is responsible for all "non-direct costs" of each plan including:

1. day-to-day operation of the plans such as the running of the pension payroll (approximately $260M annually), calculation of payments for pensioners/survivors, bringing forward reports for approval by the Pension Committees/Boards, appropriate deductions and reporting to FSCO and CRA;

2. banking services and maintenance of appropriate cash float for each Plan to cover benefit payments, and amounts due to the portfolio managers, the actuaries and other external advisers / suppliers;

3. management of short term investments;

4. secretariat support services including preparation and distribution of agenda material, recording of the minutes and facilitation of the election of active members (if applicable) and pensioner representatives to the Board/Committee;

5. legal support is provided to the Committees/Boards by the City Solicitor's Office, except for infrequent occasions on which the Board/Committee requires independent legal advice/services.

As detailed in Attachment 2, it is estimated that the City spends approximately $1 million per year in supporting the operation of the five (5) City-sponsored pension plans. Approximately 60% of the costs are related to processing and administration of benefit payments, including running the monthly pension payroll, remitting statutory payments deductions, paying invoices approved by the Boards/Committees (*e.g.*, to the custodian, the actuary, *etc.*), establishing eligibility for benefit payments for married survivors of deceased pensioners (other cases are referred to the appropriate Committee/Board itself), responding to pensioner inquiries, posting and reconciling accounts, preparation for Board/Committees meetings including reporting to the Board/Committees

These day-to-day operational services for the Plans have traditionally been provided by City staff. It is our understanding that the former municipalities' decision to use internal staff was based on an analysis indicating that this was a cost-effective delivery model. As part of staff's review of the Plans (described later in this report), alternate delivery models will be examined.

Financial Performance of the Plans

The five (5) City-sponsored Plans provide annual pension payments of approximately $260 million, and have total assets of approximately $1.8 billion which are managed by each Committee/Board for the benefit of its Plan members. As outlined previously, these assets belong to the respective Pension Plans and can be used only to provide pension payments and/or make benefit improvements

Given the demographics of the Plan members/pensioners and the fact that the Plans are closed (*i.e.*, no new active members or regular contributions), each administrator invests its Plan's assets conservatively in a well-diversified portfolio of equity and fixed-income securities. The target asset mixes of the Plans, which form part of each Plan's approved Investment Policies and are outlined in Table 2 below, are much more conservative than pension plans with many active members, which have assets generally more heavily weighted in equities and real estate investments.

Table 2: Asset Mixes of City-Sponsored Pension Plans

	Cash	**Bonds**	**Canadian Equity**	**U.S. & Foreign Equity**	**Total**
Metropolitan Toronto Pension Plan (Metro)	5%	45%	25%	25%	100%
Metropolitan Toronto Police Benefit Plan (Police)	5%	45%	30%	20%	100%
Toronto Fire Department Superannuation and Benefit Plan (Fire)	0%	50%	20%	30%	100%
Toronto Civic Employees Pension Plan (Civic)	0%	50%	20%	30%	100%
The Corporation of the City of York Employee Pension Plan (York)	0%	50%	25%	25%	100%

Table 3 provides a summary of the financial position of each of the five Plans as at December 31, 2010 on both a going-concern and solvency basis. Three (3) of the plans (Civic, Fire and Metro) are in a sound financial position having surpluses based on both a going-concern and solvency valuation. However, the Toronto Fire Department Superannuation and Benefit Plan solvency surplus is deteriorating and may require special payments in 2012. Two (2) of the Plans (Police and York) have actuarially-determined funding deficiencies which the City, as plan sponsor, is required by law to eliminate by making special payments. Any solvency deficit must be eliminated by special payments within five (5) years, whereas for a going-concern unfunded liability the maximum elimination period is fifteen (15) years.

Table 3: Financial Position of City-Sponsored Pension Plans, as at December 31, 2010 (In Millions)

	Toronto Civic Employees' Pension Plan	Toronto Fire Department Superannuation & Benefit Plan	Corporation of the City of York Employee Pension Plan	Metropolitan Toronto Pension Plan	Metropolitan Toronto Police Benefit Plan
Going Concern Financial Position					
Assets	$376.0	$270.6	$49.8	$554.5	$545.8
Liabilities	$263.4	$238.7	$50.2	$484.8	$544.3
Surplus/ (Deficit)	$112.6	$31.9	($0.4)	$69.7	$1.5
Statutory Solvency Financial Position					
Assets	$369.5	$270.5	$49.1	$547.0	$538.7
Liabilities	$287.2	$266.0	$50.2	$516.8	$585.0
Surplus/ (Deficit)	$82.3	$4.5	($4.4)	$30.2	($46.3)
Special Payment Requirements (2011 – 2015)	Not applicable	Not Applicable	2011: $1.6 2012: $1.5 2013: $0.9 2014: $0.5 2015: $0.1	Not applicable	2011: $13.0 2012: $13.0 2013: $13.0 2014: $8.3 2015: $3.4

As reflected in Table 3, the City will make special payments totalling $55.3 million between 2011 to 2015 on account of the solvency deficiencies in the York and Police plans.

As reflected in Attachment 3 of this report, the City will have made over $145 million in special payments for the York and Police plans since 1998 and up to 2015 ($89.9 million from 1998 to 2010, and an additional $55.3 million for years 2011 to 2015).

It should be noted that the actuaries for each of the Plans has done a financial forecast of the Plans, and determined, that assuming stable market conditions, each Plan should have sufficient assets to fund the pensions for the lifetime of the plan members. In addition, each Plan should no longer require special payments beyond 2016.

Council Role and Authority

The by-laws can be amended by Council within the parameters of the legislation.

However, each amendment must be filed with FSCO and the Canada Revenue Agency (CRA). FSCO is responsible for reviewing plan amendments to ensure that, among other things, if they "adversely affect the rights or obligations of a member or former member or of any other person entitled to payment from the pension fund"; those affected are notified and given an opportunity to comment. Specifically, the FSCO provides oversight to ensure that Plan Members are protected and the FSCO could refuse to register an amendment that members have an objection to.

As the sponsor of the Plans, City Council has authority over the provisions of each including the authority to approve improvements to the Plan design and cost-of-living increases for pensioners, but is prevented by the PBA from reducing any rights that have already accrued to members or beneficiaries.

Responsibilities of the City for each Plan include:

(i) appointment of its representatives to the Board/Committee as required by the governing by-law;

(ii) provision of specified operational staff as required under the By-laws (*e.g.*, Treasurer's Office, Auditor, City Clerk's Office);

(iii) payment of all non-direct costs (including, because outside operational personnel have never been engaged, the City's own operational staff not specified in the governing by-law); and,

(iv) elimination of any deficiencies in Plan funding, in accordance with the PBA.

All of the Committees/Boards include representatives of the Plan members/pensioners and all have the power to manage the Plan assets, including the making of investments. Any attempt by the City to dissolve a Committee/Board, or reduce its powers or the proportion of member/pensioner representation would be regarded as an adverse amendment that the regulator could refuse to register.

No Plan by-law could be repealed without winding up the Plan and providing equivalent annuities to the satisfaction of the regulator.

An example of where City Council approved a motion which was challenged by the Pension Plan members is a judgment rendered by the Ontario Court of Appeal on February 2, 2003. "*Markle v. Toronto*" ruled that since the Metro Plan is impressed with a trust, an amending by-law permitting the City to recover from the Metro Plan its costs of providing staff and services was void as a breach of trust.

The City Solicitor advises that there have been some important decisions handed down by both the Ontario Court of Appeal and the Supreme Court of Canada permitting administrative costs to be charged to pension plans which may impact this decision.

Potential Alternatives for moving the Management of the City-sponsored pension plans to external organizations.

Until recently, the City's ability to manage and administer the Plans was limited by the prevailing legislation. However, in 2009 the Ontario government amended the *Ontario Municipal Employees Retirement System Act, 2006* and the *Teachers' Pension Act* to allow OMERS and the Teachers' Pension Plan to establish authorized subsidiaries in order to provide investment management and pension administration services to smaller pension plans, governments, certain educational institutions and non-profit organizations.

Over the past several months, City staff have been reviewing various options with respect to the management of the City's five pension plans, including discussion with OMERS regarding opportunities to transfer responsibility for the management and / or administration of the Plans to OMERS. However, until the Province files all of the required regulations, and until FSCO provides clarity regarding issues pertaining to Plan mergers and transfers of plan assets and liabilities, staff's analysis and evaluation of the options can only proceed on a more limited basis.

Working with legal counsel and actuaries, staff are reviewing the following options with respect to the future management of the Pre-OMERS City-sponsored Pension Plans, including:

1. engagement of OMERS or Teachers Pension Plan (or another entity) to provide:

    a) day-to-day services required for the Plans (e.g. payment of pension benefits, statutory third party remittances, pensioner inquiries etc.); or,

    b) complete management of the Plans, including both investment and day-to-day services; (e.g. payment of pension benefits, statutory third party remittances, pensioner inquiries, investments and monitoring of plan assets etc.)

2. merger of the Plans with OMERS or Teachers Pension Plan;

3. wind-up of the Plans and purchase of annuities to replace the pensions and pension rights (e.g. purchase of life annuities through an insurance company

licensed in Canada to provide pension payments for life, for each plan member and/or surviving spouse).

4. status quo - continuation of current management and operation of each Plan.

Each option requires an in-depth legal, administrative and financial review and evaluation before any recommendations can be brought forward to City Council for its consideration. Given that FSCO support is required before the City can implement any significant changes to the management and administration of the Plans, it is important for staff to undertake the required due diligence to ensure, among other things, that the option(s) are within legislative parameters, continue to protect the interests of Plan members and are financially prudent from the City's perspective in terms of the overall costs that may be incurred by the City on both a short term and longer term basis with respect to each option.

The following provides a high level overview of some of the factors that must be taken into consideration in the evaluation of alternative options:

Legal Issues:

- Under the existing asset-transfer rules, FSCO must provide prior consent through the Superintendent to transfer assets of a pension plan. FSCO must determine the terms and conditions on which an asset transfer can occur, in light of current PBA rules and FSCO policy as well as pending changes to those rules.

- Recently legislated modifications to the PBA will provide a process to make plan mergers easier, but have not yet been proclaimed in force pending the regulations which are still in the drafting stage.

- It is unclear what role (if any) the Pension Boards/Pension Committees have with respect to approving such a merger or wind-up. Staff are seeking legal advice on this matter.

- It will be important to determine if a merger or transfer of assets to another pension plan will release the City of its responsibilities, obligations and liabilities as a plan sponsor.

Financial Issues:

- The York and Police Plans currently each have a solvency deficiency. Although it is possible that the City's payment burden could be reduced through a merger with OMERS, the Province has not passed clarifying regulations. In any event, a merger would entail significant ongoing and/or lump-sum costs which must be factored into the evaluation.

- Three of the City-Sponsored Plans (Civic, Fire and Metro) are in a surplus position. The by-laws for the Civic and Fire Plans call for the payment of any surplus on Plan wind-up to the employer, and the by-law for the Metro Plan call for sharing of any surplus between the employer and the members/pensioners. However, given that past precedent and case law has demonstrated that the Metro Plan's assets are subject to a trust, there is uncertainty regarding the ownership of the surplus which may result in potential legal issues or the requirement to seek agreement with members/pensioners regarding the distribution of the surplus. In addition, each of the Plans would need to be reviewed by external pension legal experts to provide advice on surplus matters.

- In one important aspect, the OMERS pension plan differs from the City-sponsored Pension Plan in that OMERS provides for automatic CPI increases, a benefit which has been too costly for consideration in the City-sponsored Plans as a result of their closed memberships. In the evaluation of a potential merger with another pension plan, all plan design differences will need to be reviewed, reconciled and costed, with a clear understanding and evaluation of any costs the City may be expected to fund, if any.

Costs and other Administrative Issues:

- The internal costs of managing and operating the City-sponsored pension plans are known and accounted for by the City. However, it is still unclear what the lump sum and ongoing administration fees involved in a transfer of administrative duties or full merger with OMERS or Teachers Pension Plan would be. Staff have begun discussions with OMERS and will require full disclosure of any lump sum and/or ongoing administration fees/costs that the City may be expected to pay in order to conduct a full evaluation and cost benefit analysis of the merger and/or transfer options.

- The City currently pays approximately $155 million annually in employer contributions to provide the OMERS Pension Plan to its eligible active employees – it is unknown at this time what the additional cost would be to have OMERS take-over the administration or provide a full merger of the five (5) pre-OMERS pension plans.

- The City has made significant investments in the Pension Plans over the years and these plans have assets of $1.8 billion, part of which is surplus from an actuarial point of view. In addition, the actuaries of each of the Pension Plans have estimated that depending on market conditions, all of the Plans could be in a solvent position beginning in 2015; the assets would then be expected to be sufficient to sustain pensioner payments for the lifetime of the Plans (assuming various market positions and *ad hoc* increases). An evaluation of the options will include a cost-benefit analysis on both a short and longer term basis to ensure that the City's financial exposure is minimized.

There are numerous legislative, financial and operational issues which must be taken into consideration when conducting a review of alternative options for the management and administration of the City Sponsored pension plans. Staff are currently awaiting the filing of required Regulations in order to proceed and complete a full evaluation of options, and in order to continue its discussions with OMERS. Outside pension experts have been retained to assist in the review and a full report on the results of staff's evaluation and recommended option(s) will be presented to Committee and Council as soon as a full evaluation is concluded.

TTC Pension Fund Society

The TTC Pension Fund Society is a modified final average Plan which provides benefits using a four-year base period which is not updated automatically but rather only when the Society's Actuary indicates there are sufficient funds to do so. Cost-of-living increases for pensions in payment are *ad hoc* and depend on the existence of sufficient assets in the fund to cover the present value of the cost.

The Society has its own Board of Directors (the Board), five of whom are appointed by the Toronto Transit Commission and five of whom are appointed by Local 113 of the Amalgamated Transit Union. Membership in the Society is a condition of employment.

The Society's plan is an open, active pension concern with 12,570 active members and 6,400 pensioners as at February 28, 2011. The TTC's employees are not covered by the OMERS legislation.

The Society's assets under management as at the end of 2010 totalled, just short of $3.9 billion. The Society has a well-diversified portfolio of investments, all of which are managed by external professional investment managers, under the supervision of the Board and investment consultants retained by the Board.

Changes to the benefit structure require changes to the By-laws of the Pension Fund Society. By-law amendments require the approval of the Board, sanction of the Commission and the approval by a majority of Members present at the Society's Annual General Meeting.

Rationale for Internal Management of the Asset

In accordance with the By-laws of the Society, it is the TTC's responsibility to bear all administrative and office expenses of the Society. Currently, the TTC Pension office staff totals 14 employees who are paid by the TTC.

The operating budget for the Pension Fund Society office is set at $1.25 million for labour and $0.17 million for non-labour expenses, totalling $1.42 million for the year ended December 31, 2011. As a department of the Commission, a rigorous review of the Pension Fund administration budget, including staffing levels is done as part of the TTC Operating Budget approval process.

Internal administration by the Society helps the Commission control costs and gives the Commission the ability to negotiate pension benefits as part of collective bargaining.

With Commission sanction required for all By-law amendments, the Commission has the ability to control both contribution and benefit levels. Managing the Plan independently allows the actuary to use actual historical data assumptions for patterns of retirement, termination, mortality, gender, family composition and so on which are all unique to the liabilities of the Society.

The benefit structure of the Society, as mentioned previously, differs substantially from other public sector plans as the Society is not a final average pension plan**,** so improvements are not automatic and are not adopted if the Society cannot support the improvement on a long-term basis. Improvements would include updates to the pension formula which are automatic in most public-sector pension plans as well as providing pensioner indexing, which is formula-based and automatic in the case of most public-sector pension plans, including OMERS.

Historically, the benefits provided by the Society's NRA 60 Plan (normal retirement age 60) have been considerably less expensive than those that would have been provided by OMERS or a final-average pension plan. In light of estimated solvency funding shortfalls, to control costs, the base period currently used in calculating pension benefits is to the end of December 31, 2004, six years behind what a final-average pension plan would provide. Also there has been no indexing for pensions in payment since 2007. Estimates of the difference in value of benefits between the TTC and OMERS plans indicates that providing benefits under a final average and providing indexed pensions such as OMERS would have paid would have resulted in an increased cost to the Members and to the Toronto Transit Commission of approximately $1 billion. It should be noted that the Society is actively seeking a solvency funding exemption such as was granted to OMERS in August, 2010.

Annual Cost of Managing the Society

Investment and plan administrative expenses are paid by the Society; these include fees for investment managing, asset custody, and actuarial, investment consulting and legal services. These expenses totalled $10.7 million for the year ended 2010, or 28 bps (28/100s of 1%) of the total assets under the management. Investment returns for 2008 were -15.5%, for 2009 were +13.6% and for the year ended December 31, 2010 were +10.8%.

As in the case of OMERS, contributions into the Plan are split equally between the employees do the employer[1]. Total contributions in 2010 were $167.6 Million. The Employer portion of these contributions totalled $83.8 Million. Benefits paid from the

[1] The Toronto Transit Commission is also obligated to make contributions for certain early retirement benefits after 29 years of service (negotiated in 1996) and some temporary supplements (pre-1974).

Society in the form of pensions, death benefits and amounts on termination totalled $158.9 million in 2010.

Potential Alternatives for Moving Management to External Organizations

It should be noted that as a negotiated benefit, moving the operation of the Pension Fund Society to an external organization would require considerable discussion and negotiation between the TTC and its Labour Unions. The Society has received legal advice to the effect that the Toronto Transit Commission is not able unilaterally, to wind up the Pension Fund Society. It should also be noted, that if the Society were to be wound up, the Commission would be responsible for funding any wind-up shortfall. It is estimated that such a shortfall, which will be more precisely defined in the next Actuarial valuation expected to be received in early April, 2011, would be in the area of $600 to $800 million.

One alternative to internal management of the Society's affairs would be to move the Plan's assets and liabilities to OMERS. Due to the very different levels of funding and benefits structure, any such move would be extraordinarily complex and, if the Society is successful in its efforts to obtain exemption from solvency funding, future costs could in fact result in contribution rates that would be lower than those currently in place under the equivalent OMERS Plan, especially in light of scheduled OMERS contribution rate increases.

Another alternative could be to move the management of the Society's funds to external organizations such as the Ontario Teachers' Pension Fund and/or OMERS. Discussions were held with the Teachers Pension Plan some time ago, and at that time the fee the Teachers Plan was offering was 1% of the value of the assets, approximately 4 times the expenses currently being incurred by the Society to manage the assets. Discussions with OMERS were inconclusive, in that the actuarial requirements driving the OMERS investment strategy and asset mix are different than those of the Society. OMERS did not seem interested in disaggregating its asset mix to enable the Society to match its actuarial needs and its investment vehicles.

A longer-term alternative could be to grandfather the current plan and close it to new Members. Under these circumstances, new employees of the TTC could be directed into Membership in OMERS and existing employees would continue as Members of the TTC Pension Fund Society. It could easily be 50 or 60 years before the final obligation of the TTC Pension Fund Society Plan was paid to the last pensioner. This would be a similar situation to that of the older plan currently covering former employees of various city organizations which were grandfathered in 1966 and which continue in existence to this day.

A final long-term alternative would be to create a new pension plan for new TTC employees in the form of a defined-contribution, money-purchase plan, which could be managed externally by another large pension plan or financial institution. Here again, as in any of the alternatives discussed above, these changes would have to be negotiated with the employees' collective bargaining agent before they could be implemented.

Conclusion

A review of the five City-Sponsored pension plans has been commenced and is currently awaiting the filing of Regulations by the Province and clarification from FSCO regarding plan mergers and transferring of pension plan assets and liabilities. As outlined in this report, there are numerous legislative, financial and operational issues which must be considered as part of a review of alternative options for the management and administration of the plans. Given that FSCO support is required before the City can implement any significant changes to the management and administration of the Plans, it is important for staff to undertake the required due diligence to ensure, among other things, that the option(s) are within legislative parameters, continue to protect the interests of Plan members and are financially prudent from the City's perspective in terms of the overall costs that may be incurred by the City on both a short term and longer term basis. Outside pension experts have been retained to assist in the review and a full report on the results of staff's evaluation and recommended option(s) will be presented to Committee and Council as soon as a full evaluation is concluded.

With respect to the TTC plan, potential alternatives have been identified by TTC staff. Given the solvency deficit issue of the plan, staff recommend that the TTC be requested to conduct a full review of options and report back to Committee on its findings.

CONTACTS

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

John D. Cannell, Treasurer, TTC Pension Fund Society
Tel: (416) 393-3609, Fax (416) 338-0122

SIGNATURE

____
Giuliana Carbone
Treasurer

ATTACHMENTS

Attachment 1: Description of the Five City-Sponsored, Pre-OMERS Pension Plans
Attachment 2: Estimated Annual Internal Costs Borne by the City
Attachment 3: Special Payment Requirements (funded by City) since 1998

ATTACHMENT 1

Description of the Five City-Sponsored, Pre-OMERS Pension Plans

Description of the City Sponsored Pension Plans	Plan Membership	
Metropolitan Toronto Pension Plan (MTPP). Established in 1956. Covers eligible permanent employees of the former Municipality of Metropolitan Toronto hired prior to July 1, 1968 including the following agencies, branches and commissions: Toronto Community Housing Corporation; Toronto Licensing Commission; Toronto Police Services Board – civilian employees; Board of Management of the Toronto Zoo; Toronto Public Library. The Board of Trustees for the MTPP is composed of the following members: - Chair appointed by Council who is not a member of Council; - Mayor or his/her designate; - City Treasurer (non-voting) - two (2) members of City Council; - one(1) active member elected by active members (or an additional pensioner if an active member is not nominated); - two (2) pensioners elected from among their members.	Active: Retirees & Survivor Spouses:	6 2,755
Metropolitan Toronto Police Benefit Fund (MTPBF). Established in 1957. Covers the Chief of Police, constables and other police officers who are members of the City of Toronto Police Service and were hired prior to July 1, 1968. The normal retirement age is 60 for all members. The Board of Trustees for the MTPBF is composed of the following members: - Chair appointed by Council who is neither a member of the plan or a member of Council; - Mayor or his/her designate; - City Treasurer (non-voting); - two (2) members of City Council; - one (1) active member elected by active members (or an pensioner if an active member is not nominated); - two (2) pensioners elected from among their members.	Active: Retirees & Survivor Spouses:	6 2,062
Corporation of the City of York Employee Pension Plan (York Plan). Established in 1955. Covers eligible employees of the city of York hired prior to July 1, 1968. The normal retirement age is 65 years for all members except firefighters, whose retirement age is 60 years. The York Employees' Pension and Benefit Committee is composed of the following members: - City Treasurer; - two (2) members of City Council of which one is currently the Chair;	Active: Retirees & Survivor Spouses:	0 238

Description of the City Sponsored Pension Plans	Plan Membership	
- two (2) representatives elected by the retired members of the plan; - Chair who is a Board Member and who is appointed by the Board.		
Toronto Civic Employees Pension Fund (Civic Plan). Established in 1952. Covers eligible employees of the former City of Toronto hired prior to July 1, 1968 including former employees transferred to Metro Toronto who elected to continue in the Civic Fund, excluding firefighters. The normal retirement age is 65 years. The Toronto Civic Employees Pension Committee is composed of the following members: - Council-appointed citizen (currently the Chair); - City Treasurer; - two (2) members of City Council; - three (3) pensioner representatives (with alternates) elected by the Pensioners' Association; - Chair who is appointed by the Board.	Active: Retirees & Survivor Spouses:	1 1,415
Toronto Fire Department Superannuation and Benefit Fund (Fire Plan) Established in 1891. Covers employees of the Toronto Fire Department who were hired prior to July 1, 1968. There are no longer any active members. The Toronto Fire Department Superannuation and Benefit Fund Committee is composed of the following members: - Council-appointed citizen (currently the Chair); - two (2) members of City Council; - three (3) representatives (with alternates) of the Fire Dept. Pensioner Association appointed by that Association; - City Treasurer; - Chair who is appointed by the Board.	Active: Retirees & Survivor Spouses:	0 897

ATTACHMENT 2

Estimated Annual Internal Costs Borne by the City

Cost Type	Description	Estimated Annual Cost ($)
Board Honorarium for the Chairs of Police & Metro Boards	By-law requirement that the City is responsible for these costs	15,000
Processing and administration of benefit payments; banking and cash float services, etc.	4 full-time Payroll staff 1 full-time Financial Analyst 50% of 1 Manager's time Material/Supplies ($11,000)	591,000
Management of Short Term Investments	10% of 1 Manager's time and 10% of 1 investment staff's time	17,000
Clerk Clerks Services – agenda preparation, minute taking, facilitation of member election process	Metro/Police: 60% of 1 Committee Administrator Civic/Fire: 25% of 1 Committee Administrator York: 10% of 1 Committee Administrator	95,000
Legal Services	80% of 1 Solicitor's time	155,000
Accounting Valuation Reports	5 Reports required for preparation of City's annual Financial Statements	44,000
External Audit Fees (the City is currently seeking clarity from the Regulator to determine if these costs can be paid by the Plans)	Annual audits – filed with FSCO and CRA	38,000
Senior Management	Estimated Senior Management time in supporting the Plans and the Boards, including Treasurer and Director of Pensions, Payroll and Employee Benefits	80,000
Total		**$ 1,035,000**

ATTACHMENT 3

Special Payment Requirements (funded by City) since 1998

Year	York	Police	Total
	($)		
1998	1,627,000	0	1,627,000
1999	1,585,000	0	1,585,000
2000	1,584,000	0	1,584,000
2001	1,580,000	0	1,580,000
2002	1,579,000	0	1,579,000
2003	7,573,000	0	7,573,000
2004	4,571,000	704,000	5,275,000
2005	4,837,000	12,467,000	17,304,000
2006	4,497,000	12,306,000	16,803,000
2007	4,044,000	4,907,000	8,951,000
2008	3,121,000	2,417,000	5,538,000
2009	3,506,000	5,880,000	9,386,000
2010	1,474,000	9,637,200	11,111,200
Sub-Total (1998 – 2010)	**$ 41,578,000**	**$ 48,318,200**	**$ 89,896,200**
2011	1,615,882	13,009,872	14,625,694
2012	1,517,741	12,987,600	14,505,641
2013	872,640	12,987,600	13,860,240
2014	543,624	8,334,000	8,877,624
2015	148,608	3,350,400	3,499,008
Sub-Total (2011 – 2015)	**$ 4,698,435**	**$ 50,669,472**	**$ 55,367,907**
Grand Total	**$ 46,276,435**	**$ 98,987,672**	**$ 145,264,107**