TORONTO

STAFF REPORT
ACTION REQUIRED

Metropolitan Toronto Pension Plan – Actuarial Valuation Report as at December 31, 2012

Date:	April 19, 2013
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2013\Internal Services\ppeb\gm13003ppeb (AFS16346)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2012 for the Metropolitan Toronto Pension Plan (the Plan) and recommends a cost-of-living increase of 1.52% to pensioners effective January 1, 2013, payable from the assets of the Plan. The 2012 Valuation (attached as Attachment 1) sets forth the financial position of the Plan for the year ended December 31, 2012 on both a going-concern and a solvency basis, and confirms that the Plan does not require any special payments by the City of Toronto, as it is in a surplus (or excess) position on both a going-concern and solvency basis.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive the "Report on the Actuarial Valuation for Funding Purposes as of December 31, 2012" (attached as Attachment 1) prepared by Mercer (Canada) Limited with respect to the Metropolitan Toronto Pension Plan.

2. City Council approve, effective January 1, 2013, an *ad hoc* cost-of-living increase of 1.52% in pension benefits to pensioners of the Metropolitan Toronto Pension Plan at an estimated actuarial cost of $7.3 million on a solvency basis which will be borne by the Plan's fund.

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.

Financial Impact
The annual estimated cash cost of the recommended increase in pensioner benefits is approximately $778,000.

The estimated commuted cost of the recommended increase in pensioner benefits on a solvency basis will be $7.3 million and on a going-concern basis will be $6.5 million over the projected life of the Plan.

This increase will be payable from the assets of the Plan with no contribution required by the City and will not create any deficit at this time, or in the future given the Plan's going-concern and solvency surpluses.

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 Pension Plan ("the Plan") is submitted annually to Council. The last such report was considered by City Council at its meeting held on June 6, 7 and 8, 2012 when it adopted Government Management Committee report GM14.5 "Metropolitan Toronto Pension Plan – Actuarial Report as at December 31, 2011".

Following is the link to the report and decision document:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.GM14.5

ISSUE BACKGROUND
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, which is responsible for the administration and enforcement of the PBA and the regulations under it. The PBA establishes the minimum standards for registered pension plans, and the regulations require the preparation and filing (at least every three 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 basis assumes that the plan will be ongoing for an indefinite period of time, and 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 excess or a shortfall. The Valuation Report also contains a reconciliation with the excess or shortfall shown in the previous Report as a measure of the plan's financial health. 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: This type of valuation basis 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 / excess. 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) at least 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 15% (*i.e.*, the plan is less than 85% funded) in which case such a report must be filed each year, until the deficiency is eliminated.

Asset Mix and Investment Returns
Given the demographics of the plan, the Pension Board invests the Plan's assets conservatively in a well-diversified portfolio of equity and fixed-income securities. The Pension Board monitors the investments of the Plan prudently with advice from an investment consulting firm retained by the Board and in accordance with the Plan's Statement of Investment Policies and Procedures, which is reviewed and approved annually by the Board.

The target asset mix of the Plan as set out in its Statement of Investment Policies and Procedures is as follows:

Type of Asset	**Target**
Cash & Equivalents	5%
Canadian Bonds	45%
Canadian Equity	25%
U.S. and Other Foreign Equity	25%
TOTAL	**100%**

The market rate of return of the Metropolitan Toronto Pension Plan was 7.68% for 2012.

COMMENTS

The Metro Plan is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers 1,536 retired members, 994 survivor pensioners, 4 vested deferred members and 1 suspended member. The Plan's Administrator is the Metropolitan Toronto Pension Plan Board of Trustees ("the Board").

The Plan's Actuary, Mercer (Canada) Limited, conducts an annual actuarial valuation of the Plan's assets and liabilities and recently submitted to the Board of Trustees its actuarial valuation report for 2012. The purpose of the valuation is to determine:

(a) the financial position of the Plan as at December 31, 2012 on both a going-concern and a solvency basis; and

(b) the minimum funding requirements by the City, if any, during the calendar years 2013 and following.

Going Concern Valuation

The valuation shows that at December 31, 2012, the Plan had actuarial assets of $501.4 million, actuarial liabilities of $429.1 million and a going-concern excess / surplus of $72.3 million. The going-concern excess is up by $18 million from the excess of $54.3 million as at December 31, 2011. The increase is primarily the result of increased asset returns and higher than expected member mortality.

Solvency Valuation

As part of the Actuarial Valuation, the actuary completed a solvency valuation comparing the Plan's assets at market value with the cost to satisfy the Plan's obligations by purchasing annuities at wind-up. The report shows that on a solvency basis, the value of the assets of $492.8 million exceeds the solvency liabilities of $479.4 million, producing a solvency excess / surplus of $13.4 million (an increase of $7.8 million from the solvency surplus of $5.6 million as at December 31, 2011).

Cost-of-Living Increase

The Metropolitan Toronto Pension Plan can be compared to the Ontario Municipal Employees Retirement System (OMERS) on the basis of plan design and municipal employee plan membership. However, while OMERS provides for automatic indexation, the Metropolitan Toronto Pension Plan does not. It could not afford to do so, because of its closed membership. Therefore, the possibility of a cost-of-living increase is reviewed annually as part of the Valuation Report in light of the financial position of the Plan.

For 2013, the Actuarial Valuation supports a cost-of-living increase effective January 1, 2013 of 1.52%, to pensioners on benefit for more than one year and a proportionate increase of 0.1267% for each month of pension payment made in 2012 for pensioners who retired during 2012. The recommended cost-of-living increase was calculated on the basis of the average of the Statistics Canada CPI over the previous year. The approximate actuarial cost of such an increase will be $7.3 million on a solvency basis. That cost would be fully funded by the Plan from its Indexation Reserve Account, which would be reduced from $13.4 million to $6.1 million. There is sufficient surplus to fund the increase over the projected life of the Plan. It should also be noted that currently members' pensions average $24,080 and surviving spousal pensions average $14,290 and that members did not receive a cost-of-living increase in 2012.

The Board of Trustees, at its meeting on March 28, 2013, recommended that a cost-of-living increase of 1.52% be granted effective January 1, 2013, to pensioners on benefit for more than one year and a proportionate increase of 0.1267% for each month of pension payment made in 2012 be granted for pensioners who retired during 2012 and requested that the report be forwarded to City Council for approval and implementation of the increase. Given the financial position of the Plan and the fact that no special payments are required by the City, staff support this recommendation.

CONTACT

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

SIGNATURE

____
Giuliana Carbone
Treasurer

ATTACHMENTS

Attachment 1: Metropolitan Toronto Pension Plan, Report on the Actuarial Valuation for Funding Purposes as of December 31, 2012 (March 2013)