



STAFF REPORT ACTION REQUIRED

Toronto Civic Employees' 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\gm13005ppeb (AFS16347)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2012 for the Toronto Civic Employees' Pension Plan (the Plan) and recommends a cost-of-living increase of 1.54% 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 “Actuarial Valuation Report as of December 31, 2012” (attached as Attachment 1) prepared by Buck Consultants with respect to the Toronto Civic Employees’ Pension Plan.
2. City Council approve, effective January 1, 2013, an *ad hoc* cost-of-living increase of 1.54% in pension benefits to pensioners of the Toronto Civic Employees’ Pension Plan at an estimated actuarial cost of \$4.3 million on a solvency basis, which will be borne by the Plan's fund.
3. By-Law No. 380-74 of the former City of Toronto governing the Toronto Civic Employees’ 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 \$491,000.

The estimated commuted cost of the recommended increase in pensioner benefits on a solvency basis will be \$4.3 million and on a going-concern basis will be \$3.6 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 Toronto Civic Employees' 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 GM14.6 titled "Toronto Civic Employees' Pension and Benefit Fund – 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.GM14.6>

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

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	2%
Bonds	48%
Canadian Equity	20%
U.S. and Other Foreign Equity	30%
TOTAL	100%

The market rate of return of the Toronto Civic Employees' Pension Plan was 7.0% for 2012.

COMMENTS

The Civic Plan is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers one (1) active member, 673 retired members, and 571 survivor pensioners. The Plan’s Administrator is The Toronto Civic Employees’ Pension Committee (the Pension Committee).

The Plan’s Actuary, Buck Consultants, conducts an annual actuarial valuation of the Plan’s assets and liabilities and recently submitted to the Pension Committee 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 \$334.9 million, actuarial liabilities of \$236.1 million and a going-concern surplus / excess of \$98.8 million, up by \$4.2 million from the excess of \$94.6 million as at December 31, 2011. The increase is primarily the result of increased asset returns.

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 \$331.5 million exceeds the solvency liabilities of \$277.5 million, producing a solvency surplus / excess of \$54.0 million (an increase of \$0.5 million from the solvency surplus of \$53.5 million as at December 31, 2011).

Cost-of-Living Increase

The 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, in 1997, the Plan by-law was amended to provide for future increases to pensioners including spouses of deceased retired members, based on the lesser of:

- (a) the investment rate of return of Plan assets (using a 5-year smoothing technique) in excess of the rate of return required to maintain the actuarial solvency of the Plan as determined by the Actuary; and
- (b) the increase in the year-over-year level of the average CPI,

provided that there is sufficient surplus to cover the cost of the increase.

In respect of 2012, there was no excess investment return as outlined in (a) above, and the increase in the year-over-year level of the average CPI outlined in (b) above was 1.54%. Therefore, there is no automatic cost-of-living adjustment in respect of 2012 called for by the wording in the by-law.

However, given that the current financial position of the Plan reflects a surplus on both a going-concern and a solvency basis, and given that currently members' pensions average \$33,000 annually and surviving spousal pensions average \$17,000 annually, the Pension Committee, at its meeting held on March 27, 2013 recommended that an *ad hoc* cost-of-living increase of 1.54% be approved effective January 1, 2013. The actuarial cost of this increase would be \$4.3 million on a solvency basis and would be funded from the assets of the Plan.

In reviewing both the current financial status of the Plan, as well as the projected financial position of the Plan over the next few years, staff are supportive of the *ad hoc* cost-of-living increase of 1.54% effective January 1, 2013 approved by the Pension Committee. The estimated actuarial cost of the recommended increase (\$4.3 million on a solvency basis and \$3.6 million on a going-concern basis) would be payable from the assets of the Plan and would not create a deficit at this time or in the future given the Plan's going-concern excess and solvency surplus.

It should be noted that the actuary has conducted a sensitivity analysis of the financial position of the Plan which indicates that even if the Plan were to suffer a one-time loss of 10% in returns because of a market correction, the Plan would continue to be in a surplus/excess position on both a going-concern and solvency basis.

CONTACT

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SIGNATURE

Giuliana Carbone
Treasurer

ATTACHMENTS

Attachment 1: The Toronto Civic Employees' Pension Plan, Actuarial Valuation Report
as of December 31, 2012 (March 2013)