STAFF REPORT
ACTION REQUIRED

Metropolitan Toronto Police Benefit Fund – Actuarial Report as at December 31, 2014

Date:	April 20, 2015
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2015\Internal Services\ppeb\gm15005ppeb (AFS20237)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2014 (2014 Valuation) for the Metropolitan Toronto Police Benefit Fund (MTPBF) and requests funding to pay charges to renew a one-year Letter of Credit. The Letter of Credit was obtained by the City from its bank in November 2014 and deposited with the Board of Trustees of the MTPBF (Board of Trustees) instead of making cash special payments to the MTPBF over the ensuing 12 months on account of its "solvency deficiency", as permitted under Ontario's *Pension Benefits Act* (the PBA) since July 2014.

The Letter of Credit was initially in the amount of $4.8 million for the balance of catch-up payments required in 2014 not already paid to the MTPBF in cash, and since January 1, 2015, has been increasing by $751,000 plus accrued interest per month as contemplated by the December 31, 2013 Actuarial Valuation.

The 2014 Valuation sets forth the financial position of the MTPBF for the year ended December 31, 2014 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 2015.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive the “Report on the Actuarial Valuation for Funding Purposes as at December 31, 2014” (attached as Attachment 1) prepared by Mercer (Canada) Limited with respect to the Metropolitan Toronto Police Benefit Fund.

2. City Council authorize the Treasurer to arrange for the renewal of the existing Letter of Credit issued by the City's bank in favour of the Board of Trustees of the Metropolitan Toronto Police Benefit Fund for a further period of one year following its scheduled expiry on December 22, 2015, so as to increase its amount on the same monthly incremental basis in lieu of special cash payments to the Fund starting on December 1, 2015 in the amount of $751,200 plus accrued interest and then in the amount of $521,400 plus accrued interest for each of the first 11 months of 2016 (a total increase of $ 6,486,600 plus total accrued interest), and the timely deposit of such renewed Letter of Credit with the Board of Trustees.

3. City Council authorize the Treasurer to arrange for further 1-year renewals of the Letter of Credit to include the remainder of the special contributions as they would have come due to the Fund in December 2016, in 2017 and the first part of 2018 (pending the availability of the Valuation Report as at December 31, 2017) under the payment schedule set out in Attachment 2 of this report to a maximum of $37.417 million.

4. City Council authorize the Treasurer to arrange for reduction in the face value of any such Letter of Credit to match any reduction in the smoothed solvency deficiency shown in any subsequent Actuarial Valuation of the MTPBF filed with FSCO.

5. City Council approve a Non-Program Operating Budget increase of $154,594 gross and $0 net funded from the Employee/Retiree Benefits Reserve Fund to cover the costs (payable in advance) related to the renewal of the Letter of Credit in late 2015.

Financial Impact
The Board of Trustees, at its March 27, 2015 meeting, passed a motion to file the 2014 Valuation with the Financial Services Commission of Ontario (FSCO) and the Canada Revenue Agency (CRA). As a result of that Valuation, the City is obliged to make special payments to the Fund in the amount of $9,014,400 for 2015, and $6,256,800 in 2016 and 2017.

As authorized by Council and in accordance with the applicable pension legislation, the City has satisfied its special-payment obligations for the first 11 months of 2015 by depositing with the Fund's Board of Trustees a Letter of Credit whose amount increases monthly in step with the scheduled payments (including interest).

Attached as Attachment 2 is a summary of the monthly payments to be covered by the use of a renewed Letter of Credit from December 2015 to November 2016 (*Although the schedule of special payments as created by the Fund Actuary extends further into the future, as seen in Attachment 2).* The cost to provide the Letter of Credit for the period of December 2015 to November 2016 is $179,194.

Funding to cover the $179,194 cost related to the renewal of the Letter of Credit in lieu of the annual special payments from December 2015 to November 2016 (for which the bank will require advance payment in December 2015) will come from the Employee / Retiree Benefits Reserve Fund. For 2015, $24,600 has been budgeted for such cost from that Reserve. Therefore, an additional $154,594 is required to cover the renewal cost of $179,194.

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

DECISION HISTORY
The Actuarial Valuation Report of the Metropolitan Toronto Police Benefit Fund is submitted annually to Council. The last such report was considered by Council at its meeting held on July 8, 2014 when it adopted Government Management Committee Meeting Report GM31.19 "Metropolitan Toronto Police Benefit Fund – Actuarial Report as at December 31, 2013", as well as a supplementary report submitted directly to Council.

Following is the link to the decision document containing the links to the reports and their attachments:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.GM31.19

ISSUE BACKGROUND
The Metropolitan Toronto Police Benefit Fund plan ("the Plan") is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers 2 active officer members, 1,170 retired officers and 716 survivor pensioners. The Plan's Administrator is the Fund's Board of Trustees.

Ontario pension plans are governed by the Ontario *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 the regulations under it. 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, subject to the employer's right to substitute a 1-year renewable letter of credit for such payments.

Actuarial valuation reports must be filed with FSCO and the Canada Revenue Agency (CRA) every three (3) years, but if 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), such a report 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 professional 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 its current Statement of Investment Policies and Procedures is as follows:

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

The 2014 market rate of return net of expenses on an unsmoothed basis was 11.78%.

In 2014, the City made $9,327,837 in special payments to the MTPBF, in accordance with both the previous actuarial valuation report (as at December 31, 2010) filed with FSCO and the new schedule of special payments indicated in the 2013 Valuation. However, for the continuation of those payments in 2015, the City took advantage of its right under the PBA to deposit a 1-year renewable Letter of Credit with the Board of Trustees in December 2014 to substitute for both a lump-sum special payment of $4.4 million owing as a result of the 2013 Valuation and (in monthly increments) the first 11 special payments (plus interest) that would otherwise have been due under that Valuation (i.e., 2013 valuation) in 2015.

To continue the advantage it will be necessary to renew the Letter of Credit so that it will cover not only the payments to which it originally applied, but also the payments scheduled for the following twelve months, plus interest, on the same incremental basis.

COMMENTS

The Benefit Fund's Actuary, Mercer (Canada) Limited, conducts an annual actuarial valuation of the Benefit Fund's assets and liabilities and recently submitted to the Board of Trustees its actuarial valuation report for 2014. The purpose of the valuation is to determine:

a. the financial position of the Fund as at December 31, 2014 on both a going-concern and a solvency basis; and

b. the minimum funding requirements by the City during the 2015 calendar year.

<u>Going-Concern Valuation</u>

The Valuation shows that at December 31, 2014, the Benefit Fund had actuarial assets of $524.6 million, liabilities of $454.2 million and a going-concern excess of $70.4 million, up from a funding excess of $17.7 million as at December 31, 2013. This increase is primarily the result of strong investment results and also reflects the decision of the Trustees to switch from 100% of the rates of the CPM2014 Public Sector Mortality Table to 120% of the those rates on the basis of a mortality experience study performed by the actuary which showed that the longevity of the Plan's members was less than that predicted by Public Sector Table. If life expectancies are lower, so are liabilities.

Solvency Valuation

As part of the Actuarial Valuation, the actuary completed a solvency valuation comparing the Fund'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 $516.1 million was less than the actuarial liabilities of $543.3 million, producing a total solvency deficiency of $27.2 million as at December 31, 2014. The previous valuation as at December 31, 2013 had indicated a solvency deficiency of $37.3 million. The decrease in the solvency position is again due primarily to a strong performance of the assets.

The solvency deficiency of $27.2 million shown in the 2014 Actuarial Valuation must be eliminated within the five (5) years following 2014. The elimination schedule in the 2014 Valuation calls for the following annual payments:

Year	**Special Payment**
2015	$9,014,400
2016	$6,256,800
2017	$6,256,800
2018	$6,256,800
2019	$592,800
TOTAL	**$28,377,600**

As mentioned above, the existing Letter of Credit covers all the 2015 payment requirements, except for the $751 thousand that is due in December 2015, and the intention is to cover all remaining special payments through renewals of the Letter of Credit in the required amounts.

Cost-of-Living Increases

Plan members have not received a cost-of-living increase since 2003, since the Fund 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
2011	$12,987,600
2012	$12,987,600
2013	$12,987,600
2014	$9,327,837
Total	**$96,608,837**

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 Fund, the Actuarial Valuation does not support a cost-of-living increase for 2015. In addition, as outlined above, given the significant amount of special payments that have been made by the City since 2004, it is not feasible 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 or requires the use of a Letter of Credit.

The Board of Trustees, at its meeting on March 27, 2015, approved the recommendation of the actuary that no cost-of-living increase be provided to pensioners in 2015 and received the 2014 Valuation. The City has also provided the Board with a report outlining the schedule of special payments related to the Letter of Credit (Attachment 2).

That Valuation calls for a continuation of special payments into 2016 and (at a lower level) 2017, and since coverage under the original Letter of Credit does not include the special payments coming due on December 1, 2015 and the subsequent months, it has been recommended that the Letter of Credit be appropriately renewed for another year and again one year later (the PBA requires each original or renewed letter of credit provided in lieu of solvency deficiency payments to expire no later than one year from its date of effectiveness), and that the renewed Letters be deposited with the Board of Trustees, so that the City can continue to take advantage of its rights in that respect under the legislation.

CONTACT

Mike Wiseman, Director, Pension, Payroll & Employee Benefits
Tel: (416) 397-4143, Fax: (416) 392-9270, mwisema@toronto.ca

SIGNATURE

____
Giuliana Carbone
Treasurer

ATTACHMENTS

Attachment 1 - Metropolitan Toronto Police Benefit Fund, Report on the Actuarial Valuation for Funding Purposes as at December 31, 2014 (April 2015)

Attachment 2 - 2014 Metropolitan Toronto Police Benefit Fund 5 - Year Amortized Special Payment / Letter of Credit (LOC) Schedule