



## STAFF REPORT ACTION REQUIRED

### Metropolitan Toronto Pension Plan – Actuarial Valuation Report as at December 31, 2014

<b>Date:</b>	April 17, 2015
<b>To:</b>	Government Management Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2015\Internal Services\ppeb\gm15003ppeb (AFS20233)

#### SUMMARY

---

This report submits the Actuarial Valuation as at December 31, 2014 for the Metropolitan Toronto Pension Plan (the Plan) and recommends a total cost-of-living increase of 1.91% to pensioners effective January 1, 2015. The 2014 Valuation sets forth the financial position of the Plan for the year ended December 31, 2014 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.

#### 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 Pension Plan.
2. City Council approve, effective January 1, 2015, a total *ad hoc* cost-of-living increase of 1.91% in pension benefits to pensioners of the Metropolitan Toronto Pension Plan at an estimated total actuarial cost of \$8.8 million on a solvency basis which will be borne by the Plan.
3. City Council further amend By-law No. 15-92 of the former Metropolitan Corporation governing the Metropolitan Toronto Pension Plan as amended to date and grant authority to introduce the necessary bill in Council.

#### Financial Impact

The annual estimated cash cost of the recommended increase in pensioner benefits is approximately \$923,571.

The estimated cost of the recommended increase in pensioner benefits on a solvency basis will be \$8.8 million and on a going-concern basis will be \$7.5 million over the projected life of the Plan.

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

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 July 8, 9, 10 and 11, 2014 when it adopted Government Management Committee report GM31.18 "Metropolitan Toronto Pension Plan – Actuarial Report as at December 31, 2013".

Following is the link to the report and decision document:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.GM31.18>

## **ISSUE BACKGROUND**

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 (3) 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). This valuation also allows assets and liabilities to be "smoothed" over a period of five (5) years, which serves to minimize major swings in assets and liabilities. 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) 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 Metropolitan Toronto Pension Plan Board of Trustees ("the Board) invests the Plan's assets conservatively in a well-diversified portfolio of equity and fixed-income securities. The Board monitors the investments of the Plan prudently with advice from an investment consultant who is 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 the Statement of Investment Policies and Procedures is as follows:

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

The annual net market rate of return of the Metropolitan Toronto Pension Plan was 13.46% for 2014.

**COMMENTS**

The Metro Plan is one of five (5) pre-OMERS pension plans sponsored by the City of Toronto. It covers 1,340 retired members, 952 survivor pensioners, and five (5) vested deferred members. 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 2014. The purpose of the valuation is to determine:

- (a) the financial position of the Plan as at December 31, 2014 on both a going-concern and a solvency basis; and
- (b) the minimum funding requirements by the City, if any, during the 2015 calendar year.

#### Going Concern Valuation

The valuation shows that at December 31, 2014, the Plan had actuarial assets of \$486.3 million, actuarial liabilities of \$391.1 million and a going-concern excess of \$95.2 million, a \$40.2 million increase from the excess of \$55.0 million as at December 31, 2013. The increase is primarily the result of strong investment returns and the introduction of new mortality rates based on the Actuary's experience study (the Plan switched from 100% of the rates of the CPM2014 Public Sector Mortality Table to 120% of the rates of the CPM12014 Public Sector Mortality Table).

#### 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 assets and liabilities for the Metro Plan also undergo a smoothing adjustment, which protects the solvency valuation against large annual swings in the value of Plan assets and liabilities. The report shows that on a solvency basis, the value of the assets of \$473.5 million exceeds the solvency liabilities of \$459.7 million, producing a solvency surplus of \$13.8 million (a decrease of \$3.5 million from the solvency surplus of \$17.3 million as at December 31, 2013). The decrease is primarily due to a decrease in the discount rate.

#### 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 by-law does not. 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 2015, the Actuarial Valuation supports a cost-of-living increase effective January 1, 2015 of 1.91% to pensioners. The approximate cost of such an increase is \$8.8 million on a solvency basis. This will be fully funded by the Plan through its Indexation Reserve Account, which will be reduced from \$13.8 million to \$5.0 million. There is sufficient surplus to fund this increase over the projected life of the Plan. It should also be noted that currently members' pensions average \$25,248 and surviving spousal pensions average \$15,299.

The Board of Trustees, at its meeting on March 27, 2015, approved the recommended cost-of-living increase of 1.91% (based on the average of the Statistics Canada CPI for 2014) be granted on pensions effective January 1, 2015.

The Board requested that the recommended 1.91% increase be forwarded to City Council for approval.

Given the financial position of the Plan and the fact that no special payments are required by the City, staff support the recommended cost of living increase of 1.91% effective January 1, 2015.

**CONTACT**

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

**SIGNATURE**

---

Giuliana Carbone  
Treasurer

**ATTACHMENTS**

Attachment 1: Metropolitan Toronto Pension Plan, Report on the Actuarial Valuation for Funding Purposes as at December 31, 2014 (March 2015)