



**STAFF REPORT  
ACTION REQUIRED**

**Metropolitan Toronto Police Benefit Fund – Actuarial  
Report as at December 31, 2015**

<b>Date:</b>	May 20, 2016
<b>To:</b>	Government Management Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2016\Internal Services\ppeb\gm16006ppeb (AFS22007)

**SUMMARY**

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This report submits, for information, the Actuarial Valuation for the Metropolitan Toronto Police Benefit Fund (MTPBF) as at December 31, 2015 (the 2015 Valuation) and requests funding to pay charges for increase and renewal a Letter of Credit deposited it with the Board of Trustees of the MTPBF (Board of Trustees). Letters of credit have been permitted under Ontario's *Pension Benefits Act* (the PBA) since July 2014, in lieu of payments to fund a plan's "solvency deficiency". The initial Letter of Credit was renewed effective December 23, 2015, with an expiry date of December 22, 2016, to extend its scope to cover the special payments due in 2016 as indicated in last year's Actuarial Valuation (the 2014 Valuation).

As of the start of 2016, the Letter of Credit had a value of \$14.7 million and has since then been increasing monthly by \$521,400 plus accrued interest, as provided for in the 2014 Valuation.

The 2015 Valuation sets forth the financial position of the MTPBF for the year ended December 31, 2015 on both a going-concern basis and a solvency basis, indicating a going-concern surplus, and outlining its solvency deficiency at that date, recommends no cost-of-living increase for pensioners for in 2016, and provides an amortization schedule for eliminating the deficiency within the mandatory five (5) years.

The solvency deficiency, has decreased by \$21.7 million since the 2014 Valuation. As a result, beginning in July 2016, the required monthly increases in the face value of the Letter of Credit will decrease to \$49,400 plus accrued interest.

The Charts below summarize the financial position of the Fund as at December 31, 2015 and December 31, 2014, as shown in the Actuarial Valuations.

**Going Concern Valuation** – This type of valuation assumes that the pension plan supported by the Fund will be ongoing for an indefinite period of time, until all pensions are fully paid out.

<b>Table 1 - Going Concern Valuation</b> (\$ millions)		
	<b>December 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>	\$526.1	\$524.6
<b>Liabilities</b>	\$447.0	\$454.2
<b>Surplus / (Deficit)</b>	\$79.1	\$70.4

**Solvency Valuation** – This type of valuation assumes that the plan was wound up on the valuation date of December 31, and the assets were used to meet existing liabilities, including the purchase of annuities for all of the pensioners and unretired members.

<b>Table 2 - Solvency Valuation</b> (\$ millions)		
	<b>December 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>	\$523.9	\$516.1
<b>Liabilities</b>	\$529.4	\$543.3
<b>Surplus / (Deficit)</b>	(\$5.5)	(\$27.2)
	<i>Valuation is being filed with FSCO*</i>	<i>Valuation was filed with FSCO*</i>

\* FSCO (Financial Services Commission of Ontario)

## **RECOMMENDATIONS**

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### **The Treasurer recommends that:**

1. City Council receive the “Report on the Actuarial Valuation for Funding Purposes as at December 31, 2015” prepared by Mercer (Canada) Ltd. with respect to the Metropolitan Toronto Police Benefit Fund.
2. City Council authorize the Treasurer to arrange for adjustment of the Letter of Credit issued by the City's bank in favour of the Board of Trustees of the Metropolitan Toronto Police Benefit Fund, to recognize the improved Solvency Deficit of the December 31, 2015 Actuarial Valuation, so that as of July 1, 2016, the increases to the carrying value will reduce from \$521,400 per month to \$49,400 per month, plus accrued interest.

3. City Council authorize the Treasurer to arrange for the further renewal of the existing Letter of Credit for a period of one year following its scheduled expiry on December 22, 2016, so as to increase its amount on the same monthly incremental basis in lieu of special cash payments to the Fund starting on December 23, 2016 in the amount of \$49,400 plus accrued interest for each month in 2017 (a total increase of \$592,800 plus total accrued interest), and the timely provision of notice of such renewal to the Board of Trustees.
4. City Council authorize the Treasurer to arrange for further 1-year renewals of the Letter of Credit to include 2018 and the first part of 2019 (pending the availability of the Valuation Report as at December 31, 2018), under the payment schedule set out in Attachment 2 of this report to a maximum of \$23.709 million.

### **Financial Impact**

The Board of Trustees, at its April 29, 2016 meeting, passed a motion to file the 2015 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 (or provide security for such payments by way of one or more Letters of Credit) in the amount of \$3,424,800 for 2016 and \$592,800 in 2017 and 2018. If the Board of Trustees had elected not to file the 2015 Valuation Report with FSCO and CRA, the City's obligation to make special payments would have been \$6,256,800 in both 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 entirety of 2016 by depositing with the Fund's Board of Trustees a Letter of Credit whose face amount increases monthly in step with the scheduled payments (plus interest).

Attached as Attachment 2 is a summary of the monthly payments to be covered by the renewed Letter of Credit from January 2016 to December 2020.

Funding to cover the \$99,232 cost of renewing the Letter of Credit in lieu of the annual special payments from January to December 2017 (for which the bank will require advance payment in December 2016) will come from the Employee / Retiree Benefits Reserve Fund XR1002. For 2016, \$238,200 has been budgeted for such cost from that Reserve.

The Deputy City Manager & 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 Government Management Committee. The last such report was considered by City Council at its meeting held on June 10, 2015 when it adopted Government Management Committee Meeting Report GM4.6 "Metropolitan Toronto

Police Benefit Fund – Actuarial Report as at December 31, 2014", 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=2015.GM4.6>

## **ISSUE BACKGROUND**

Ontario pension plans are governed by the Ontario *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 PBA regulations require the preparation and filing (at least every three (3) 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:**

This type of valuation assumes that the pension plan will be ongoing for an indefinite period of time (until the last beneficiary is paid out). It 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 surplus or a deficit. The Valuation Report also contains a reconciliation with the surplus or deficit shown in the previous Valuation Report. 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 and its assets were used to meet its existing liabilities, including the purchase of annuities for its pensioners and unretired members. If a plan has 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. 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**

The Board of Trustees of the MTPBF (the Board) is the “administrator” of the Fund within the meaning of the PBA, and therefore must ensure that it is administered in accordance with that Act and its regulations. Those regulations contain investment rules and restrictions and require the administrator to formulate a Statement of Investment Policies and Procedures (SIPP) with annual reviews.

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 the Fund's SIPP, 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:

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

The Fund's net rate of return for 2015 was 5.78% compared to 11.78% for 2014

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, the City deposited 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 the 2013 Valuation in 2015.

That Letter of Credit was renewed effective December 23, 2015, with an expiry date of December 22, 2016. To continue to provide letters of credit rather than make solvency payments into the fund, it will be necessary to renew the Letter of Credit to cover the payments scheduled for the following twelve months of 2017, plus interest, on the same incremental basis.

## **COMMENTS**

The pension plan supported by the Fund (“the Plan”) is one of five (5) pre-OMERS pension plans sponsored by the City of Toronto. It covers one (1) active officer member,

1,125 retired officers and 703 survivor pensioners. The Plan's Administrator is the Fund's Board of Trustees.

The Fund's Actuaries, Mercer (Canada) Limited, conduct an annual actuarial valuation of the Fund's assets and liabilities, and recently submitted to the Board of Trustees their actuarial valuation report for 2015. The purpose of the valuation is to determine:

- a. the financial position of the Fund as at the latest year-end on both going-concern and a solvency bases; and
- b. the minimum funding requirements by the City, if any, during the calendar years following that year-end.

### **Going-Concern Valuation**

The 2015 Valuation Report shows that at December 31, 2015, the Fund had actuarial assets of \$526.1 million, liabilities of \$447.0 million and a going-concern excess of \$79.1 million, up from a funding excess of \$70.4 million as at December 31, 2014. This going-concern increase is primarily the result of strong investment returns over the past number of years.

### **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 (4) years with the cost to satisfy the pension obligations by winding up the plan and purchasing annuities, using a discount rate that is also smoothed over four (4) years. The report shows that on this basis, the value of the assets of \$523.9 million was less than the actuarial liabilities of \$529.4 million, producing a total solvency deficiency of \$5.5 million as at December 31, 2015. The previous valuation as at December 31, 2014 had indicated a solvency deficiency of \$27.2 million. The improvement in the solvency position is again due primarily to strong investment returns.

The solvency deficiency of \$5.5 million shown in the 2015 Actuarial Valuation must be eliminated within the five (5) years following 2015. The elimination schedule in the 2015 Valuation calls for the following annual payments:

<b>Year</b>	<b>Special Payment</b>
2016	\$3,424,800
2017	\$592,800
2018	\$592,800
2019	\$592,800
2020	\$592,800
<b>TOTAL</b>	<b>\$5,796,000</b>

As mentioned above, the existing Letter of Credit covers the entire 2016 obligation, 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, as 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 to 2014, the City of Toronto, as the Plan's sponsor, has made special payments to the Fund to eliminate those deficiencies. The chart below outlines the total special payments made by the City since 2004:

<b>Year</b>	<b>Special Payment made by City</b>
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
<b>Total</b>	<b>\$96,608,837</b>

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 2016. 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 costs with respect to granting cost-of-living increases until such time as the Plan is fully solvent and the City of Toronto is no longer required to make special payments or maintain a Letter of Credit.

The Board of Trustees, at its meeting on April 29, 2016, approved the recommendation of the actuary that no cost-of-living increase be provided to pensioners in 2016 and received the 2015 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).

The Valuation calls for a continuation of special payments into 2016 and (at a lower level) 2017 and 2018, and since coverage under the Letter of Credit does not include the special payments coming due on January 1, 2017 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 notices of the renewals be provided to the Board of Trustees, so that the City exercise its rights in that respect under the legislation.

## **CONTACT**

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## **SIGNATURE**

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Mike St. Amant  
Treasurer

## **ATTACHMENTS**

- Appendix 1 - Metropolitan Toronto Police Benefit Fund, Report on the Actuarial Valuation for Funding Purposes as at December 31, 2015 (April 2016)
- Appendix 2 - 2016 Metropolitan Toronto Police Benefit Fund 5-Year Amortized Special Payment / Letter of Credit (LOC) Schedule