STAFF REPORT
ACTION REQUIRED

Metropolitan Toronto Pension Plan – Actuarial Valuation
Report as at December 31, 2015

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<th>Date:</th>
<th>May 20, 2016</th>
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<td>To:</td>
<td>Government Management Committee</td>
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<td>From:</td>
<td>Treasurer</td>
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<td>Wards:</td>
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SUMMARY

This report submits, for information, the Actuarial Valuation Report as at December 31, 2015 for the Metropolitan Toronto Pension Plan (the Plan), as well as a supplementary communication from the actuaries (May 6, 2016), and recommends a total cost-of-living increase of 3.04% to pensioners effective January 1, 2016, by means of an appropriate amendment to By-law No. 15-92 governing the Plan. Such an increase covers both the increase in the Consumer Price Index (CPI) during 2015 (1.13%) and, non-retroactively, an additional 1.91% representing the portion of the increase in CPI during 2011 not yet reflected in pensioner benefits because of financial considerations in previous years.

The 2015 Valuation Report sets forth the financial position of the Plan and the Fund for the year ended December 31, 2015 on both going-concern and solvency bases, and confirms that no special payments are required from the City of Toronto.

The Charts below summarize the financial position of the Fund as at December 31, 2014 and December 31, 2015 based on 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.

| Table 1 - Going Concern Valuation  
| ($ millions) |  
| December 31, 2015 | December 31, 2014 |  
| Assets | $489.9 | $486.3 |  
| Liabilities | $381.3 | $391.1 |  
| Surplus / (Deficit) | $108.6 | $95.2 |  

**Solvency Valuation** – This type of valuation assumes that the Plan was wound up on the valuation date (i.e., December 31<sup>st</sup>, 2015) and the assets had been used to meet existing liabilities including the purchase of annuities for the pensioners and unretired members.

| Table 2 - Solvency Valuation  
| ($ millions) |  
| December 31, 2015 | December 31, 2014 |  
| Assets | $473.3 | $473.5 |  
| Liabilities | $443.6 | $459.7 |  
| Surplus / (Deficit) | $29.7 | $13.8 |  

* Valuation is being filed with FSCO*
* Valuation was filed with FSCO*

* Financial Services Commission of Ontario

**RECOMMENDATIONS**

The Treasurer recommends that:

1. City Council receive the “Actuarial Valuation Report as of December 31, 2015” (attached as Attachment 1) prepared by Mercer (Canada) Limited with respect to the Metropolitan Toronto Pension Plan and the supplementary communication (May 6, 2016) (attached as Attachment 2) from that firm, advising as to the cost of expanding the cost-of-living increase in pension benefits to include not only the 1.13% increase in the Consumer Price Index (CPI) during 2015 but also 1.91% attributable to the remaining portion of the increase in CPI during 2011.

2. City Council amend By-law No. 15-92 of the former Metropolitan Corporation governing the Metropolitan Toronto Pension Plan as amended to date to provide for an increase, effective January 1, 2016, of 3.04% in current pension benefits under the By-law.
Financial Impact

There is no financial impact on the City as a result of this report. The burden of the cost-of-living increase in pensions provided for in the recommended amendment to the Plan's governing by-law will be borne by the Plan's Fund and there are no additional payments required to be made to the Fund by the City.

The annual estimated cash cost of the recommended increase in pensioner benefits is approximately $1,422,263 ($528,670 for the 1.13% increase in CPI during 2015 and $893,593 for the 1.91% attributable to the previously unrecognized increase in CPI during 2011).

The estimated actuarial cost (present value) of the increase on a solvency basis was $13.5 million ($5.0 million for the 1.13% and $8.5 million for the 1.91%) as at December 31, 2015 and on a going-concern basis was $11.6 million ($4.3 million for the 1.13% and $7.3 million for the 1.91%). This increase will be payable from the assets of the Plan with no contribution required by the City. As outlined in the actuarial report and the supplementary communication, this will not create any Plan deficit but will reduce the going-concern excess and the solvency surplus as of that date in order to take into account the cost of the increase over the projected life of the Plan.

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

DECISION HISTORY

The Actuarial Valuation Report on the Metropolitan Toronto Pension Plan ("the Plan") is submitted annually to Government Management Committee. The last such report was considered by Government Management Committee at its meeting held on May 11, 2015 when it adopted Government Management Committee report GM4.5 titled "Metropolitan Toronto Pension Plan – Actuarial Report as at December 31, 2014".

Following is the link to the report and decision document: http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM4.5

ISSUE BACKGROUND

Ontario 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 such plans, and the regulations 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 assumes that the 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 had been used to meet its existing liabilities, including the purchase of annuities for its pensioners and unretired members. If the plan has greater assets than liabilities on a solvency basis on the valuation date, it has an actuarial surplus. If there are 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**

The Board of Trustees of the Metropolitan Toronto Pension Plan ("the Board") is the “administrator” of the Plan within the meaning of the PBA, and therefore must ensure that the Plan 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, the Board invests the Plan’s assets conservatively, through a number of investment managers, in a well-diversified portfolio of equity and fixed-income securities in accordance with the Plan's SIPP.

The Pension Board monitors the performance of the managers regularly with advice from a professional investment consulting firm. The target asset mix of the Fund as set out in its current SIPP is as follows:
The Plan's net rate of return for 2015 was 6.08% compared to 13.46% for 2014.

COMMENTS
The Metropolitan Toronto Pension Plan is one of five (5) pre-OMERS pension plans sponsored by the City of Toronto. It covers 1,249 retired members, 931 survivor pensioners and 4 vested deferred pensions.

The Plan’s actuaries, who are staff members of Mercer (Canada) Limited, conduct an annual actuarial valuation of the Plan’s assets and liabilities and recently submitted to the Board their actuarial valuation report as at the end of 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 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 Plan (i.e., its Fund) had actuarial assets of $489.9 million, actuarial liabilities of $381.3 million and a going-concern excess of $108.6 million, up from the excess of $95.2 million as at December 31, 2014. The $13.4 million increase in the going-concern excess was primarily the result of strong investment returns over the past number of years.

Solvency Valuation

The 2015 Valuation Report also shows that on a solvency basis using actuarial smoothing to distribute changes over rolling 4-year periods, the value of the assets of $473.3 million exceeded the solvency liabilities of $443.6 million, producing a solvency surplus of $29.7 million (an increase of $15.9 million from the solvency surplus of $13.8 million as at December 31, 2014).

Board Approval

At its meeting held on April 29, 2016, the Board approved the 2015 Valuation Report and recommended that the Plan's governing by-law be amended to provide for the cost-of-living increase discussed below.
Cost-of-Living Increase

The Plan can fairly be compared to the primary Plan of the Ontario Municipal Employees Retirement System (OMERS) given the similarities in plan design and municipal employee plan membership. However, while the OMERS plan provides for automatic indexation, the Plan's 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 Plan's financial position.

For 2016, having regard to the CPI-linked ceiling in the regulations pertaining to pension plans under the Income Tax Act (Canada), the Actuarial Valuation and the supplementary communication support a cost-of-living increase effective January 1, 2016 of 3.04% to pensioners, calculated on the basis of the sum of:

- the average of the Statistics Canada CPI over 2015 (1.13%) and;
- an additional 1.91% to recognize that no part of the 2.91% increase in CPI during 2011 was reflected by an increase in pensioner benefits in 2012 and that only 1% was so reflected in 2014.

Although the increase in CPI during 2011 was 2.91%, there was no increase in benefits at all in 2012 because of financial considerations. There was an increase in benefits in 2013 to reflect the CPI increase of 1.52% during 2012, however the funded status did not allow for any catch-up of unpaid inflation from the prior year. In 2014, there was an increase of 1.94% in benefits to take into account both the increase of 0.94% in CPI during 2013 and 1% to represent a portion of the CPI increase during 2011, leaving the remaining 1.91% of the 2011 increase in CPI unreflected in the pensioner benefits. In 2015, there was an increase of 1.91%, representing the 2014 CPI, but the funded status of the plan did not allow for any catch-up.

In 2016, the funded status of the plan is sufficient to pay for 2015 CPI, as well as to catch-up previous years' unpaid CPI. The approximate cost of an increase of 3.04% in pensioner benefits as at December 31, 2015, is $13.5 million on a smoothed solvency basis and $11.6 million on a going-concern basis. This cost would be fully funded by the Fund through its Indexation Reserve Account (i.e., the lesser of the solvency surplus and the going-concern excess), which as of December 31, 2015 would be reduced from $29.7 million to $16.2 million to take into account the increase over the projected life of the Plan. It should also be noted that currently members' pensions average $25,766 and surviving spousal pensions average $15,964.
As the estimated actuarial cost of the increase will be payable from the assets of the Plan (i.e., the Fund), no deficit will be created, and the Plan will continue to show both a going-concern excess and a solvency surplus.

**CONTACT**
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**SIGNATURE**

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Mike St. Amant
Treasurer

**ATTACHMENTS**
Attachment 1: The Metropolitan Toronto Pension Plan Report on the Actuarial Valuation for Funding Purposes as at December 31, 2015 (April 2016)

Attachment 2: Mercer Supplementary Communication