

Progress on the Merger of the City of Toronto Pre-OMERS Pension Plans

Date: October 24, 2016

To: Government Management Committee

From: Treasurer

Wards: All

SUMMARY

This report provides an update on the status of merger discussions with OMERS staff with regard to the City's five (5) pre-OMERS pension Plans.

RECOMMENDATIONS

The Treasurer recommends that:

1. Government Management Committee receive this report for information.

FINANCIAL IMPACT

There are no financial implications arising from this report at this time.

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

DECISION HISTORY

At its meeting held on October 24 and 25, 2011, City Council adopted Executive Committee report EX11.10 "City-Sponsored Pre-OMERS Pension Plans – Analysis of Alternative Investment and Pension Administration through OMERS" authorizing staff to investigate the options of:

- (i) a possible merger of the City's five Pre-OMERS pension plans with the OMERS plan; and

(ii) potentially winding up each of the Plans through purchase of annuities.

Following is the link to the staff report and Council decision:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX11.10>

At its meeting held on June 13, 2016, Government Management Committee requested the Treasurer to report to the Government Management Committee semi-annually on the status of the merger of the City of Toronto Pre-OMERS Pension Plans and include any relevant correspondence from OMERS with the report.

Following is the link to the staff report and Government Management Committee decision:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM13.5>

COMMENTS

City staff initiated discussions with OMERS staff in 2011 regarding the potential transfer/merger of each of the five plans. However, these discussions were placed on hold following indication by the Provincial government that for the public sector, further legislation would be required to enable mergers of defined-benefit single-employer pension plans with jointly-sponsored pension plans.

In 2014, the Pension Benefits Act (PBA) was amended to add a new section 80.4 setting out the framework for such mergers and stipulating that before such a merger could proceed, notice of any such proposed merger had to be provided to all members and beneficiaries and that their deemed consent had to be given in accordance with the regulations.

On October 22, 2015, the Province promulgated Ontario Regulation 311/15 under the PBA titled "Conversions and Transfers of Assets under Section 80.4 of the Act and Conversions under Section 81.0.1 of the Act", stipulating that deemed consent for a public-sector merger will exist if at least two-thirds of active members of the single-employer pension plan in fact consent and no more than one-third of other members and beneficiaries of that plan object.

Since Council's direction in 2011, City staff have maintained an open and transparent dialogue with OMERS staff and with each of the Boards/Committees which are the administrators of the five pension plans. City staff also arranged for senior OMERS representatives to attend some meetings of those Boards/Committees to provide information and answer questions.

City staff met with OMERS staff and developed a preliminary timetable of actions to be taken, which was presented by OMERS representatives at the June 13, 2016 GMC meeting. Both sides anticipate that this will be a complicated process requiring a series of intricate steps with restrictive timelines.

Since the latest update to GMC on June 13, 2016 the following events have taken place:

City-OMERS Meeting of June 20, 2016

- Representatives from both sides agreed that neither entity had the resources to tackle the simultaneous merger of all five pension plans.

It was agreed that the Police and York pension plans would be used as pilots for the merger investigation.

- It was also agreed that the existing non-disclosure agreement with the OMERS Administration Corporation (OAC) should be expanded to permit disclosure of the confidential information respecting the City's five pension plans to members and staff of the OMERS Sponsors Corporation and appropriate others as required for costing analysis.
- The OMERS representatives stated that they would require several weeks to develop some pricing models to present to the City.

City-OMERS Meeting of July 15, 2016

OMERS representatives advised that:

- Since it would be difficult to evaluate accurately the risk to OMERS of transferring in the assets of the City-sponsored pension plans, OMERS may require a "risk premium" from the City over and above the full transfer of plan assets;
- OMERS would consider reducing its risk by requiring periodic "true-ups" to eliminate any differences between subsequent actuarial calculations of liabilities attributable to the benefit entitlements of the former members and beneficiaries of the City plans and the notional remaining value of the assets transferred to OMERS — if there were a shortfall at the time of any true-up, the City would be obliged to make a further payment to OMERS, and if there were a surplus, OMERS would grant the City a credit toward the regular contributions which the City as a municipal employer must make to OMERS.

At that meeting, OMERS presented the City with only one pricing model, which used a discount rate based on the City Plans' own wind-up/solvency valuations. As solvency rates are currently under 3% (to take into account the significant cost of purchasing from insurers annuities for all plan beneficiaries), this pricing model would require not only that the total assets of all five pension plans be transferred to OMERS, but also that the City make an additional immediate remittal to OMERS in excess of \$200 million.

Follow-ups to July 15 Meeting

After internal consultation, senior City staff responded to OMERS by advising that:

- City staff are not averse to the "true-up" option, with periodic actuarial reviews to compare assumptions with subsequent actual results and potential payment by the City of any shortfalls (and receipt of contribution credits for any surpluses), and would be presenting the option to Council once there is sufficient information to disclose the full projected financial impacts;
- Given the true-up mechanism which would eliminate any risk to OMERS, City staff would argue against providing OMERS with any "risk premium"; and
- City staff requested OMERS to use a "going-concern" approach in its pricing model rather than a wind-up/solvency approach with its value-depressing effect.

OMERS staff advised the City that a report would be submitted in August to the boards of both the OMERS Administration (OAC) and Sponsors Corporations (SC) seeking direction to continue discussions, and that they could not proceed without direction from their boards.

City-OMERS Meeting of September 13, 2016

- The OMERS representatives advised that both the OAC and the SC had authorized them to continue dialogue and negotiations with City staff.
- OMERS staff will be exploring the "true-up" approach in depth.
- As the "true-up" scenario may not have previously been implemented for any public-sector pension plans (OMERS is aware that a similar process has been used in the private sector in connection with corporate mergers), OMERS is planning discussions with, and will seek approval from, the Canada Revenue Agency (CRA) and the Financial Services Commission of Ontario (FSCO).

Next Steps

- OMERS staff will be scheduling discussions and meetings with CRA and FSCO to present the “true-up” approach.
- OMERS will present the City with other pricing models, ideally prior to approvals from CRA and FSCO, which may take some time.
- Further meetings will be scheduled between City and OMERS representatives with the intention of agreeing to “terms and conditions” and developing a business case that can be presented to GMC and the OAC and SC as soon as practicable.

CONTACT

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SIGNATURE

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Treasurer