GM21.7

REPORT FOR ACTION

Metropolitan Toronto Police Benefit Fund – Actuarial Valuation Report as at December 31, 2016

Date: May 11, 2017
To: Government Management Committee
From: Treasurer
Wards: All

SUMMARY

This report submits, for the Committee's information, the Actuarial Valuation Report prepared by Mercer (Canada) Limited as at December 31, 2016 on the Metropolitan Toronto Police Benefit Fund (Fund), and recommends an *ad hoc* cost-of-living increase of 1.10% in pensioner benefits effective January 1, 2017, by means of an appropriate amendment to By-law No. 181-81 governing the Fund and the pension plan (Plan) which it finances.

The 2016 Valuation Report sets forth the financial position of the Fund for the year ended December 31, 2016 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, 2016 and December 31, 2015 based on the Actuarial Valuations.

Going Concern Valuation – This type of valuation assumes that the Plan will continue to operate until all pensions are fully paid out.

Table 1 - Going Concern Valuation ($ millions)		
	December 31, 2016	December 31, 2015
Assets	$525.9	$526.1
Liabilities	$446.2	$447.0
Surplus / (Deficit)	$79.7	$79.1

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

Table 2 - Solvency Valuation ($ millions)		
	December 31, 2016	December 31, 2015
Assets	$530.7	$523.9
Liabilities	$504.2	$529.4
Surplus / (Deficit)	$26.5	($5.5)
	Valuation is being filed*	Valuation was filed*

* *i.e.*, filed with the regulators, the Financial Services Commission of Ontario and the Canada Revenue Agency.

The Asset amount of $530.7 million includes $21.0 million from the Letter of Credit that the City originally deposited with the Board of Trustees in 2014 in accordance with the *Pension Benefits Act* in lieu of making payments into the Fund with respect to the Fund's solvency deficiency as it stood at the end of 2013.

In view of the existence of a surplus in the Fund at the end of 2016, the actuary has certified in the Valuation Report that the City may properly terminate the Letter of Credit, and the Plan`s Board of Trustees has authorized the return of the Letter to the City for termination.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive the “Report on the Actuarial Valuation for Funding Purposes as at December 31, 2016” (attached as Attachment 1) prepared by Mercer (Canada) Limited with respect to the Metropolitan Toronto Police Benefit Fund.

2. City Council approve, effective January 1, 2017, a total ad hoc cost-of-living increase of 1.10% in pension benefits to pensioners of the Metropolitan Toronto Police Benefit Fund.

3. City Council amend By-law No. 181-81 of the former Metropolitan Corporation governing the Metropolitan Toronto Police Benefit Fund as amended to date to provide for an increase, effective January 1, 2017, of 1.10% in current pension benefits under the By-law.

4. City Council authorize the Treasurer to arrange for termination of the Letter of Credit given the current financial position of the Benefit Fund.

FINANCIAL IMPACT

The only financial impact to the City as a result of this report is a positive one, being the cessation, once the Letter of Credit is terminated, of the charges from the City's bank for maintaining the Letter. The burden of the cost-of-living increase in pensions provided for in the recommended amendment to the Fund's governing by-law will be borne by the Fund itself and there are no additional payments required to be made to the Fund by the City.

The initial annual estimated cash cost to the Fund of the increase in pensioner benefits is approximately $632,151, arrived at by applying the percentage to an approximated yearly payroll derived from the last monthly pay cycle of 2016.

The estimated actuarial cost (present value) of the increase in pensioner benefits on a solvency basis was $5.5 million as at December 31, 2016 and on a going-concern basis was $4.9 million. The increase will be payable from the assets of the Fund with no contribution required by the City. As is apparent from the Valuation Report, these costs will not create any deficit at this time given the Fund's going concern and solvency surpluses. There is no expectation of any future deficit.

The City's five (5) pre-OMERS pension plans have total assets of approximately $1.5 billion. It costs the City approximately $1 million per year to provide staff and other administrative resources for the five plans. Potential mergers of each plan with OMERS, which would entail consequent wind-ups of the plans, are being explored to minimize or eliminate the requirements for special payments and provide cost savings with respect to the administration of the plans, while continuing to protect all of the rights of those entitled to benefits under the plans.

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

DECISION HISTORY

The most recent Actuarial Valuation Report on the Metropolitan Toronto Police Benefit Fund is submitted annually to Government Management Committee. The last such report was considered by Government Management Committee at its meeting held on June 13, 2016 when it adopted Government Management Committee report GM13.9 titled "Metropolitan Toronto Police Benefit Fund – Actuarial Report as at December 31, 2015".

Following is the link to the report and decision document:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM13.9

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, and its responsibilities include the administration and enforcement of the PBA and the regulations under it. The PBA establishes 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 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 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 and its assets used to meet its existing liabilities, including the purchase of annuities for its pensioners. 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, the employer must eliminate that deficiency by one or more special payments which may be amortized over a period of no longer than five (5) years. In the case of the Plan, the PBA specifically permits a Letter of Credit to be substituted for such payments.

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 solvency deficiency in excess of 15% (*i.e.*, the plan was 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 Police Benefit Fund ("the Board") is the “administrator” of the Fund and the Plan within the meaning of the PBA, and therefore must ensure that both are administered in accordance with that Act and its regulations. Those regulations contain investment rules and restrictions and require the administrator to formulate and abide by 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 Board of Trustees monitors the performance of the investment managers regularly with advice from a professional investment consulting firm. The target mix of the Fund as set out in its current Statement of Investment Policies and Procedures is as follows:

Asset Mix	
Cash & Equivalents	4%
Bonds	58%
Canadian Equity	15%
U.S. and Other Foreign Equity	23%
TOTAL	**100%**

The Fund's net rate of return for 2016 was 7.3% compared to 5.8% for 2015.

COMMENTS

The Metropolitan Toronto Police Benefit Fund is one of five (5) pre-OMERS pension plans sponsored by the City of Toronto. It covers one (1) active member, 1,070 retired members and 700 survivor pensioners.

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 of Trustees its actuarial valuation report as at the end of 2016. The purpose of the valuation is to determine:

- the financial position of the Fund as at the latest year-end on both going-concern and solvency bases; and

- the minimum PBA requirements for funding from the City, if any, during the calendar years following that year-end.

Going Concern Valuation

The Valuation Report shows that at December 31, 2016, the Fund had smoothed assets of $525.9 million, actuarial liabilities of $446.2 million and a going-concern excess of $79.7 million, up from the excess of $79.1 million as at December 31, 2015. The $0.6 million increase in the going-concern excess was primarily the result of strong investment returns over the past number of years.

Solvency Valuation

The 2016 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 $530.7 million exceeded the solvency liabilities of $504.2 million, producing a solvency surplus of $26.5 million. The increase of $32.0 million from the solvency deficit of $5.5 million as at December 31, 2015 is also due to better-than-expected investment returns.

Board Approval

At its meeting held on April 21, 2017, the Board approved the 2016 Valuation Report and recommended that the Fund'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 Fund's financial position.

For 2016, the Valuation Report indicates a September-to-September inflation rate of 1.34% and that the Indexation Reserve Account, which stood at $5.5 million at year-end, is sufficient to finance, on a solvency basis, a cost-of-living increase of 1.10% in pension benefits effective January 1, 2017. The cost of the increase over the projected life of the Plan would be fully borne by the Fund through its Indexation Reserve Account, which would as a result be reduced to $0.00 million. It should also be noted that currently members' pensions average $29,764 and surviving spousal pensions average $18,093 and the last cost of living increase received by these pensioners was January 1, 2003.

The Board of Trustees, at its meeting on April 21, 2017, recommended a cost-of-living increase of 1.10% in pension benefits effective January 1, 2017.

CONTACT

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SIGNATURE

Mike St. Amant
Treasurer

ATTACHMENTS

Attachment 1: The Metropolitan Toronto Police Benefit Fund, Actuarial Valuation Report as of December 31, 2016 (April 2017)