REPORT FOR ACTION

Metropolitan Toronto Pension Plan – 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 Pension Plan (the Plan), and recommends an *ad hoc* cost-of-living increase of 1.43% in pensioner benefits effective January 1, 2017, by means of an appropriate amendment to By-law No. 15-92 governing the Plan and the Fund.

The 2016 Valuation Report sets forth the financial position of the Plan and 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	$490.4	$489.9
Liabilities	$380.2	$381.3
Surplus / (Deficit)	$110.2	$108.6

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

Table 2 - Solvency Valuation ($ millions)		
	December 31, 2016	December 31, 2015
Assets	$475.3	$473.3
Liabilities	$425.1	$443.6
Surplus / (Deficit)	$50.2	$29.7
	Valuation is being filed*	Valuation was filed*

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

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 Pension Plan and its underlying Fund.

2. City Council approve, effective January 1, 2017, a total ad hoc cost-of-living increase of 1.43% in pension benefits to pensioners of the Metropolitan Toronto Pension Plan.

3. City Council amend By-law No. 15-92 of the former Metropolitan Corporation as amended to date, governing the Metropolitan Toronto Pension Plan to provide for an increase, effective January 1, 2017, of 1.43% 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 pension benefits to be 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 initial estimated cash cost to the Fund of the 2017 increase, arrived at by applying the percentage to an approximated yearly payroll derived from the last monthly pay cycle of 2016, will be $648,500.

The estimated actuarial cost (present value) of the 2017 increase in pensioner benefits on a solvency basis was $6.1 million as at December 31, 2016 and on a going-concern basis was $5.4 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 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 June 13, 2016 when it adopted Government Management Committee report GM13.8 titled "Metropolitan Toronto Pension Plan – 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.GM13.8

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 had 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.

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 Pension Plan ("the Board") is the “administrator” of the Plan and the Fund 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 and abide by a Statement of Investment Policies and Procedures (SIPP) with annual reviews.

Given the demographics of the Plan, the Pension Committee invests the Fund’s assets conservatively, through a number of investment managers, in a well-diversified portfolio of equity and fixed-income securities in accordance with the Fund's SIPP.

The Board of Trustees monitors the performance of the investment 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:

Asset Mix	
Cash & Equivalents	4%
Bonds	56%
Canadian Equity	15%
U.S. and Other Foreign Equity	25%
TOTAL	100%

The Fund's net rate of return for 2016 was 6.6% compared to 6.1% for 2015.

COMMENTS

The Metropolitan Toronto Pension Plan is one of five (5) pre-OMERS pension plans sponsored by the City of Toronto. It covers 1,160 retired members, 892 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 of Trustees their 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 Plan (*i.e.*, its Fund) had smoothed actuarial assets of $490.4 million, actuarial liabilities of $380.2 million and a going-concern excess of $110.2 million, up from the excess of $108.6 million as at December 31, 2015. The $1.6 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 $475.3 million exceeded the solvency liabilities of $425.1 million, producing a solvency surplus of $50.2 million (an increase of $20.5 million from the solvency surplus of $29.7 million as at December 31, 2015).

Board Approval

At its meeting held on April 21, 2017, the Board approved the 2016 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 registered pension plans under the *Income Tax Act* (Canada), the Actuarial Valuation supports a cost-of-living increase effective January 1, 2017 of 1.43% to pensioners. The approximate cost of such an increase is $6.1 million on a solvency basis. This will be fully funded by the Plan through its Indexation Reserve Account (*i.e.*, the lesser of any solvency surplus and any going-concern excess) which will be reduced from $50.2 million to $44.1 million to take into account the cost of the increase over the projected life of the Plan. It should also be noted that currently members' pensions average $26,712 and surviving spousal pensions average $16,755.

The Board of Trustees, at its meeting on April 21, 2017, recommended a cost-of-living increase of 1.43% (based on the average of the Statistics Canada CPI for 2016) in pension benefits effective January 1, 2017.

CONTACT

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SIGNATURE

Mike St. Amant
Treasurer

ATTACHMENTS

Attachment 1: The Metropolitan Toronto Pension Plan, Actuarial Valuation Report as of December 31, 2016 (April 2017)