



REPORT FOR ACTION

City of York Employee Pension Plan (York Plan) – Actuarial Valuation as at December 31, 2016

Date: September 6, 2017

To: Government Management Committee

From: Treasurer

Wards: Ward(s) affected or All

SUMMARY

This report submits, for the Committee's information, the Actuarial Valuation Report as at December 31, 2016 (2016 AVR) for the Corporation of the City of York Employee Pension Plan (York Plan), as approved by the Plan's Pension and Benefit Committee at its meeting of June 22, 2017. The 2016 AVR sets forth the financial position of the York Plan for the year ended December 31, 2016 on both a going concern basis and a solvency basis, and confirms that no special payments are required from the City of Toronto.

In the report the actuary shows that the calculations under the excess-yield formula set forth in the Plan's governing by-law do not generate a Post-Retirement Adjustment in 2017 for pensioners, and given the current financial position of the Plan, the 2016 AVR does not support an *ad hoc* cost-of-living increase outside the by-law formula.

At its meeting, the Plan's Pension and Benefit Committee decided, in accordance with the Regulations under the *Pension Benefits Act*, to file the 2016 AVR with the Financial Services Commission of Ontario (FSCO), and the Canada Revenue Agency (CRA).

The Charts below summarize the financial position of the Plan 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	\$ 41.1	\$ 44.8
Liabilities	\$ 37.7	\$ 44.5
Surplus / (Deficit)	\$ 3.4	\$ 0.3

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	\$ 39.9	\$ 43.8
Liabilities	\$ 40.0	\$ 46.7
Surplus / (Deficit)	(\$ 0.1)	(\$ 2.9)
	Valuation is being filed*	Valuation was not 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” (Attachment 1 to this report) prepared by Mercer (Canada) Limited with respect to the Corporation of the City of York Employee Pension Plan.

FINANCIAL IMPACT

There are no financial impacts arising from this report.

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 financial impact information.

DECISION HISTORY

The Actuarial Valuation Report on the City of York Employee Pension Plan is submitted annually to Government Management Committee. The last such report was considered by Government Management Committee at its meeting held on November 14, 2016

when it adopted Government Management Committee report GM16.3 titled "The Corporation of the City of York Employee Pension Plan (York) - Actuarial Valuation as at December 31, 2015".

Following is the link to the report and decision document:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM16.3>

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.

However, in the case of the 2016 actuarial valuation, there is a Solvency (Wind-up) surplus of \$0.8 million compared to a "Smoothed" Solvency Valuation deficiency of \$0.1 million. Under the CRA's interpretation of the Regulations under the *Income Tax Act*, if a smoothed solvency valuation results in a solvency deficiency which is greater than that which would be determined under a solvency wind-up valuation, an employer may make special contributions only to eliminate the value of the wind-up deficiency. Since there is no deficiency on a wind-up basis, the City is not required to make any contributions.

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 a 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 Benefit Committee of the Corporation of the City of York Employee Pension Plan ("the Benefit Committee") is, within the meaning of the PBA, the "administrator" of the Plan and the fund which finances it, 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, file and abide by a Statement of Investment Policies and Procedures (SIPP) with annual reviews, which it has done.

Given the demographics of the Plan's members, the Benefit Committee invests the assets conservatively in a well-diversified portfolio of equity and fixed-income securities. The Benefit Committee monitors the investments prudently, with advice from the professional investment advisors retained by it in accordance with the Plan's SIPP, which it reviews annually.

The Benefit Committee also monitors the performance of the investment managers regularly with advice from a professional investment consulting firm. The target mix of the Plan's fund as set out in its current Statement of Investment Policies and Procedures is as follows:

Target Asset Mix	
Bonds	50%
Canadian Equity	20%
U.S. and Other Foreign Equity	30%
TOTAL	100%

The Plan's net rate of return for 2016 was 8.1% compared to 4.1% for 2015.

COMMENTS

The Corporation of the City of York Employee Pension Plan is one of five (5) pre-OMERS pension plans sponsored by the City of Toronto. It covers 95 retired members and 82 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 Benefit Committee its actuarial valuation report as at the end of 2016. The purpose of the valuation is to determine:

- the financial position of the Plan 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's fund had smoothed assets of \$ 41.1 million, actuarial liabilities of \$ 37.7 million and a going-concern excess of \$ 3.4 million, up from the excess of \$ 0.3 million as at December 31, 2015. The \$ 3.1 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 \$ 39.9 million was slightly less than the solvency liabilities of \$ 40.0 million, producing a solvency deficit of \$ 0.1 million. The improvement of \$2.8 million from the solvency deficit of \$ 2.9 million as at December 31, 2015 was also due to better-than-expected investment returns.

Benefit Committee Approval

At its meeting held on June 22, 2017, the Benefit Committee approved the 2016 Valuation, and directed that it be filed with both the Financial Services Commission of Ontario (FSCO) and the Canada Revenue Agency (CRA).

CONTACT

Mike Wiseman, Director, Pension, Payroll & Employee Benefits
Tel: (416) 397-4143, Fax: (416) 392-9270, E-mail: Michael.Wiseman@toronto.ca

SIGNATURE

Mike St. Amant
Treasurer

ATTACHMENTS

Attachment 1: The Corporation of the City of York Employee Pension Plan, Report on the Actuarial Valuation for Funding Purposes as at December 31, 2016 (August 2017)