



## REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

### Direction Regarding Merger of the Five (5) City of Toronto Pre-OMERS Pension Plans With OMERS

**Date:** September 11, 2017

**To:** Government Management Committee

**From:** Treasurer

**Wards:** All

#### REASON FOR CONFIDENTIAL INFORMATION

This report contains information related to the security of the City's or local board's property.

#### SUMMARY

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This report provides an update on the status of merger discussions with OMERS staff for the five pre-OMERS pension plans sponsored by the City, provides actions required in order to approve and complete the merger for each of the plans, and provides confidential information regarding property of the City, being whatever entitlement it has, or can be negotiated in its favour, to any surplus assets remaining in any of the plans after the main transfer of assets to OMERS.

#### RECOMMENDATIONS

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The Treasurer recommends that:

1. City Council authorize the Treasurer:
  - (a) to enter into a Pension Transfer Agreement with the OMERS Sponsors Corporation and the OMERS Administration Corporation for each of the five pre-OMERS pension plans sponsored by the City on the terms indicated in Confidential Attachment 1;
  - (b) to make public the terms of the Pension Transfer Agreements following the adoption of subrecommendation 1(a);

- (c) with respect to any of the City-sponsored pre-OMERS pension plans likely to have surplus assets remaining after any merger, to provide , in consultation with the City Solicitor, instructions as required to the City's outside counsel to negotiate with an authorized legal representative of the pensioners of the plan in each case, and to document in a suitable manner, a mutually satisfactory allocation of such assets between the City and those pensioners within the parameters indicated in Confidential Attachment 1;
- (d) to make public the terms of the negotiated allocation of surplus assets for each plan immediately following the execution of the required documentation;
- (e) to report back on the progress of each merger and, subject to confidentiality as required, the progress of the surplus allocation negotiations, as appropriate; and
- (f) to report back on the financial results of each transfer and the implementation of each negotiated surplus allocation following the completion of each.

## 2. City Council

- (a) direct that the content of Confidential Attachment 2 remain confidential in its entirety as it is related to the security of the City's or a local board's property
- (b) request the administrator of each pension plan to proceed expeditiously to fulfil its role in the merger of its plan, including adoption of the resolution called for by Confidential Attachment #1 and diligent instruction of City pension staff regarding all statutory requirements, all in a timely manner;
- (c) authorize City staff to take all steps necessary to achieve the mergers on behalf of both the City and each administrator, as applicable.

## **FINANCIAL IMPACT**

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Although approval of this report will not result in any immediate financial implications, should the merger of all or some of the five (5) pre-OMERS pension funds be completed, there will be resulting financial implications arising from the surplus allocation and/or deficit financing requirements to the extent that each fund's actuarial liabilities (and surplus allocation to the pensioners, should such be appropriate) exceed that fund's assets. Financial implication scenarios have been outlined in the Confidential Attachment #1.

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

## **DECISION HISTORY**

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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.

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

At its meeting on May 29, 2017, Government Management Committee received the latest report on Progress on the Merger of the City of Toronto Pre-OMERS Pension Plans.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.GM21.9>

## **COMMENTS**

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### Context

When OMERS was established by legislation in the early 1960s, the City and some of its predecessor municipalities already had five (5) pension plans in place, each with its own pension fund. Those plans did not automatically become part of OMERS, but which continued in their existing states, subject to various amendments over the years concerning improved benefits, variations in contribution rates and so on. The original OMERS legislation was amended to provide that any new municipal employees after July 1, 1968 were to be enrolled in OMERS, rather than pre-existing plans. As a result, the plans were closed to new members almost fifty (50) years ago, but continued to operate as before for those already enrolled and their qualified survivors. The plans have similarities in terms of benefits, but there are differences, flowing from the historical nature of the plans, and changes to their constituting documentation that have been made during their currency.

## Administration

Each plan has its own administrator — a board/Committee — to administer the pensions, the investments, and the direct costs. The administrators for four (4) of the plans consist of three (3) member appointees, three (3) city staff (including the Treasurer) and an independent chair, while the fifth has two (2) member appointees, 2 Councillors and the Treasurer. Administration includes payment of pensions, determination of survivor eligibility (in the case of discretionary matters such as adequacy of proof of sufficient length of spousal cohabitation where there has been no marriage), setting an investment policy, monitoring consultants, reviewing annual actuarial reports, authorizing filings with the regulators (CRA and FSCO), and reporting to members.

## Benefits of a merger

The intended mergers offer benefits to the pensioners, the City and OMERS.

Pensioners will benefit as they will receive their existing benefits plus guaranteed inflation indexation, equivalent to the indexation given to all OMERS retirees, and for certain pension funds they will receive a share of any resulting surplus after transfer of all liabilities and transfer of the assets necessary to finance those liabilities. Currently there is no guarantee that pensioners in any of the funds will receive annual increases, though a few of the plans are sufficiently well-funded that annual inflation indexation is expected either through a built-in (but conditional) formula, or through *ad hoc* amendments.

The City will avoid potential future costs as the mergers will transfer all risks of managing the pension funds – investment, actuarial, and administrative – to OMERS, in exchange for full payment of actuarial liabilities in accordance with agreements with OMERS, as at the settlement date. Currently the City bears all risks for the performance of the pension funds, and has invested approximately \$ 142 million into the Police and York Pension funds since amalgamation, and historically the predecessor sponsoring municipalities contributed some \$ 160 million in connection with various upgrades in benefits. In addition, the City may benefit from a portion of any surpluses in the funds, once OMERS's liabilities have been funded.

OMERS will benefit from an increase in membership and assets, with new member liabilities fully funded, at a discount rate lower than its existing discount rate of 6.2%.

### Merger Work Plan and Timelines

The updated merger plan presented to the May 29, 2017 GMC provided a timeline which anticipated completion of each merger by Q4 2018. Given the requirement for negotiation regarding surplus and resolution of any additional matters, each pension fund will adopt its own timeline, with the goal of completing each merger as quickly as possible. As there is a deficit in the York fund, it will not require these additional steps, and will be the first fund to go forward. If regulatory approvals are obtained as planned, we are hopeful that this merger will be completed in late 2018. Further information on each plan's progress and timelines, will be included in future reports.

### **CONTACT**

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### **SIGNATURE**

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Mike St. Amant  
Treasurer

### **ATTACHMENTS**

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Confidential Attachment 1 - Direction Regarding Merger of the Five (5) City of Toronto Pre-OMERS Pension Plans with OMERS  
Confidential Attachment 2  
Confidential Attachment 3