



## REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

### Mergers of pre-OMERS Pension Plans with OMERS and Proposal for Sharing of Surplus Funds

**Date:** June 18, 2018

**To:** Government Management Committee

**From:** Treasurer

**Wards:** All

#### REASON FOR CONFIDENTIAL INFORMATION

---

The attachment to this report involves the security of property belonging to the City of Toronto.

#### SUMMARY

---

This report outlines the actions and timelines for the merger of four pre-OMERS pension funds with OMERS. The merger process is a technical and regulatory process, with approvals of pensioners, and the Financial Services Commission of Ontario (FSCO), as well as detailed work by City and OMERS staff. It is anticipated that the York fund merger will be effective October 31, 2018, while the three other funds will be effective mid to late 2019.

In addition to pensioners receiving their existing pensions plus OMERS inflationary indexing, members of funds which have surpluses, will also receive a share of the surplus, on wind up of their fund. The City will also be receiving a share of surpluses, which will vary depending on fund earnings and other actuarial factors between now and the effective dates, but is anticipated at this time to be \$70 to \$90 million.

#### RECOMMENDATIONS

---

The Treasurer recommends that:

1. City Council approve the negotiated surplus sharing for the Police Fund and the York Fund as set out in Confidential Attachment 1.

2. City Council authorize the public release of the information contained in Confidential Attachment 1 at the discretion of the Treasurer following the approval of the plan mergers by the Superintendent of Financial Services.

## **FINANCIAL IMPACT**

---

There is no financial impact as a result of this report.

As at the effective date of the merger of each City-sponsored pre-OMERS pension plan with the OMERS Plan, providing that consent has been obtained from the Superintendent of Financial Services (the Superintendent), an actuarial valuation will be performed and the actuarial liability for future benefits payments owing under the plan will be paid into the OMERS Plan from the City-sponsored plan. This liability will be calculated using existing assumptions with one major improvement - guaranteed cost-of-living increases calculated in the same manner as for existing retirees under the OMERS Plan. Once the liability has been paid, remaining funds will be subject to surplus-sharing agreements between the City and the pensioners of the City-sponsored plan on terms previously approved by Council, which will require additional approval from the Superintendent prior to disbursement of the surplus and wind-up of the plan. It is anticipated that The Corporation of the City of York Employee Pension Plan will be wound up in 2019, while the other three merging pension plans will be wound up in late 2019 or early 2020, following regulatory approvals. It is anticipated that the City's total share of the surpluses of all four merging pension plans, which will not be confirmed in each case until after the effective date of the merger, will be \$70 to \$90 million.

The Interim Chief Financial Officer has reviewed this report and agrees with the above 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>

At its meeting on November 14, 2016 Government Management Committee requested the Treasurer to submit to the Government Management Committee in the second quarter of 2017 updated information on the 2011 "Preliminary Analysis of OMERS Options City of Toronto Pre-OMERS Pension Plans" including updates to:

- a. The financial/plan information as of December 31, 2016;
- b. Merger options;
- c. Financial information for OMERS and the five plans;
- d. Demographics;
- e. Current going concern and solvency payments;
- f. Current active members; and
- g. The 8 Exhibits.

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

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM16.4>

At its meeting on May 29, 2017 Government Management Committee received a report on the Progress on the Merger of the City of Toronto pre-OMERS Pension Plans  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.GM21.9>

At its meeting held on October 2, 3 and 4, 2017 City Council adopted the recommendations in the report Direction Regarding Merger of the Five (5) City of Toronto pre-OMERS Pension Plans with OMERS.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.GM22.23>

## **COMMENTS**

---

The City-sponsored pre-OMERS pension plans have been closed to new members since 1968. As single-employer plans, they have been subject to a regulatory framework that requires valuations performed on both going-concern and solvency bases, with any requirement for additional funding from the City, based on the more stringent, solvency basis. This regime has resulted in payments of tens of millions of dollars over the past twenty years, and has prompted the initiative to merge these plans with the OMERS Plan, as documented in the above reports previously considered by Council. Recently, the Province amended the Regulation that prescribes funding requirements, to lower the threshold for payments to 85% of solvency funding, from 100%. This effectively lowers the probability that the City's plans would require funding payments as all have assets greater than the solvency liabilities, but does not detract from the benefits of merging the plans with the OMERS Plan.

Since merger discussions began in 2011, all 5 pension funds have had successive years of good returns, such that they are all in decent to good financial health, allowing OMERS to receive from each of the four merging pension plans (the merger of the Fire Superannuation plan having been deferred) sufficient funds to cover pensioners' earned benefits, and guaranteed cost-of-living increases matching those of the OMERS Plan.

Each pension plan is a separate financial entity and any merger with OMERS must occur separately from the merger of any other pension plan. The following chart outlines the status of each plan's merger process as at June 2018:

Plan	Status
The Corporation of the City of York Employee Pension Plan	Superintendent's review in progress Effective date October 31, 2018 To be wound up in 2019
Metropolitan Toronto Pension Plan	Surplus –sharing agreement executed. Mail-outs to members scheduled for October 1, 2018. Submission of material to Superintendent scheduled for early January, 2019. Effective date October 31, 2019. To be wound up in early 2020.
Metropolitan Toronto Police Benefit Fund	Surplus-sharing agreement executed. Mail-outs to members scheduled for early September, 2018. Submission of material to Superintendent scheduled for early December, 2018. Effective date August 31, 2019. To be wound up in late 2019 - early 2020.
Toronto Civic Employees' Pension Plan	Surplus-sharing agreement executed. Mail-outs to members scheduled for early August, 2018 Submission of material to Superintendent scheduled for early October, 2018. Effective date July 31, 2019. To be wound up in late 2019 early 2020.
Toronto Fire Department Superannuation and Benefit Fund Plan	This pension plan's proposed merger has been deferred at this time.

The City, through its outside counsel Osler, Hoskin and Harcourt LLP (Oslers), has negotiated the disposition of projected surpluses in the Civic, Metro and Police pension plans with legal representatives of the respective pensioner groups. The proposed merger of the Fire pension plan has been deferred at this time.

Further comments respecting these matters are contained in Confidential Attachment 1.

## **CONTACT**

---

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

Ward Earle, Director, Municipal Law, Legal Services  
Tel: (416) 397-4058, Fax: (416) 397-5624, E-mail: Ward.Earle@toronto.ca

## **SIGNATURE**

---

Mike St. Amant  
Treasurer

## **ATTACHMENTS**

---

Confidential Attachment 1