GM29.11

REPORT FOR ACTION

Corporation of the City of York Employee Pension Plan – Funding Valuation Report as at December 31, 2017

Date: June 18, 2018
To: Government Management Committee
From: Treasurer
Wards: All

SUMMARY

This report submits, for the Committee's information, a Funding Valuation Report as at December 31, 2017 on the Corporation of the City of York Employee Pension Plan (the Plan) and an Actuarial Certification of the Plan's Post Retirement Indexing Reserve Account, both prepared by Mercer Canada. It also provides information on a cost-of-living increase of 1.50% to pensioner benefits, effective July 1, 2018. A portion of such increase, 0.30%, is automatically called for as a Post Retirement Adjustment (PRA) under By-law 1428-17 governing the Plan, as a result of the excess-yield formula set forth in that By-law. The remaining increase of 1.20% is being recommended as a one-time *ad hoc* escalation in the 2018 PRA, in anticipation of the proposed merger with OMERS, as the Plan is in a surplus position under both solvency and going concern bases.

By-law 1428-17 contains a revised consolidation of former governing By-law 3349-96 of the former City of York and all its subsequent amending by-laws harmonizing the plan text with a number of established administrative practices.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive the “Funding Valuation Report as of December 31, 2017” for The Corporation of the City of York Employee Pension Plan (Attachment 1) prepared by Mercer Canada, and Mercer Canada's Certification that sufficient funds exist in the Plan's Post Retirement Indexing Reserve Account to support an escalated Post Retirement Adjustment (PRA) of 1.50% effective July 1, 2018 (Attachment 2).

2. City Council amend By-Law 1428-17 governing the Plan to provide that the Post Retirement Adjustment (PRA) for 2018 shall be 1.50%.

FINANCIAL IMPACT

There is no financial impact on the City as a result of this report. The Plan's actuary has certified that the criteria specified in the Plan's governing by-law for an increase of 0.30% in pensioner benefits have been met, and that sufficient funds exist on an actuarial basis for an additional 1.20% increase, for a total increase of 1.50%. There are no additional payments required to be made by the City in 2018 and none are anticipated in subsequent years.

The cost to the Fund of the 2018 increase, calculated using the annual payroll derived from the most recent pay cycle in 2018, is estimated to be $61,756.

The estimated actuarial cost (present value) of the 2018 increase in pensioner benefits on a solvency basis was $0.6 million as at December 31, 2017 and on a going-concern basis was also $0.6 million. The increase will be payable from the assets of the Fund with no contribution required by the City. As is apparent from the Funding 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 defined-benefit pension plans have total assets of approximately $1.6 billion. It costs the City approximately $1 million per year to provide staff and other administrative resources for the five plans. A merger of the York Plan has been agreed to with OMERS and is currently awaiting the consent of the Superintendent of Financial Services. Potential mergers of the Metro, Police and Civic Plans with OMERS, which would entail consequent wind-ups of the plans, have been agreed to but are currently conditional on confirmation that no more than 1/3 of their respective pensioners object to the merger in each case, and the consent of the Superintendent of Financial Services to both the merger and the surplus-sharing arrangements that have been agreed to with their respective pensioners.

Such mergers will eliminate possible 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 Interim 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 Corporation of the City of York Employee Pension Plan, which its Fund finances, is submitted annually to Government Management Committee. The last such report was considered by Government Management Committee at its meeting held on September 25, 2017 when it adopted

Government Management Committee report GM22.26 titled "City of York Employee Pension Plan (York Plan) - Actuarial Valuation as at December 31, 2016".

Following is the link to the report and decision document:

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.GM22.26

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 its regulations. 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 the assets and liabilities of a pension plan providing defined benefits, 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 carry on 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 surplus or a deficit. The Valuation Report also contains a reconciliation with the surplus or deficit shown in the previous Valuation Report.

As part of the regulations that came into effect on May 1, 2018, an unfunded liability on a going-concern basis must now be eliminated by the employer by one or more special payments which may be amortized over a period not exceeding ten (10) years, whereas under the old regulations this time period was previously fifteen (15) years.

In addition, the Going-Concern valuation must now include a reserve, called a *provision for adverse deviation*, based in part on the mix of investments in the Plan's portfolio.

Solvency Valuation:

This type of valuation basis assumes that the plan was wound up on the valuation date and all its assets were used to meet its existing liabilities, including the purchase of annuities for its pensioners. If a plan has greater assets than liabilities on a solvency basis on the valuation date, it has an actuarial surplus. If there are more liabilities than assets, the plan has a "solvency deficiency" and in accordance with the revised regulations, if assets are less than 85% of liabilities, 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. Under the previous regulations, these special payments were required if assets were less than 100% of liabilities.

An actuarial valuation report for a defined-benefit plan must be filed with FSCO and the Canada Revenue Agency (CRA) at least every three (3) years. If, at the end of any year, such 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 Fund Committee of the Corporation of the City of York Employee Pension Plan (the Pension Committee) is the “administrator” of the Plan within the meaning of the PBA, and therefore must ensure that both the Plan and its Fund are administered in accordance with the 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 and the expectation of an imminent merger with the OMERS Plan, the Pension Committee, in October 2017, chose to invest the Fund’s assets conservatively, in a portfolio of short-term fixed-income securities in accordance with the Fund's SIPP.

The Pension Committee monitors the performance of the investment manager 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	
Canadian Short Term Bonds	100%

The Fund's net rate of return for 2017 was 8.2% compared to 8.1% for 2017.

COMMENTS

The York Plan is one of five (5) pre-OMERS defined-benefit pension plans sponsored by the City of Toronto. It covers 83 retired members, and 79 survivor pensioners.

The Plan's Actuary, Mercer Canada conducts an annual actuarial valuation of the assets and liabilities of the Plan's Fund. 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, 2017, under the new rules, the Fund had smoothed actuarial assets of $39.3 million, actuarial liabilities of $37.4 million and a going-concern excess of $1.9 million, a decrease of $1.5 million from the excess of $3.4 million as at December 31, 2016. This decrease is primarily as a result of a lower discount rate reflecting the lower expected earnings of more conservative investments, and increases the Plan's pension liabilities.

Solvency Valuation

As part of the Valuation Report, the actuary completed a solvency valuation comparing the Fund's assets at market value with the cost to purchase annuities and pay wind-up expenses as at December 31, 2017, to satisfy the Fund's obligations. At its meeting held on April 20, 2018, the Pension Committee approved the solvency valuation on a smoothed basis. The Valuation Report shows that on a solvency basis, the value of the assets of $38.3 million exceed the solvency liabilities of $36.9 million, producing a solvency surplus of $1.4 million (an increase of $1.5 million from the solvency deficit of $0.1 million as at December 31, 2016). The increase in the solvency surplus was primarily related to better than expected asset returns.

Cost-of-Living Increase

The Plan can be compared to the primary pension 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 provides for a contingent Post Retirement Adjustment (PRA) at a rate equal to the average of the Inactive Lives Excess Yields calculated for each of the previous 4 calendar years (i.e., for 2014, 2015, 2016 and 2017). If this calculation is greater than 0%, then a PRA automatically becomes payable, regardless of whether or not the Plan is in a sufficient surplus position to cover the cost of the increase.

In respect of 2018, the average of the 4 previous calendar years' Inactive Lives Excess Yield was equal to 0.30%. Therefore, as required by the Plan's governing by-law, and acknowledged by the Pension Committee at its meeting held on June 14, 2018, a PRA of 0.30% is called for as of July 1, 2018.

However, because the members of the York Plan have only had one PRA since 2002 (0.12% in 2016), the fund earned in excess of 8% in 2017, and there are likely sufficient assets to fund the liability payable to OMERS as part of the merger, it is being recommended that an additional 1.20% increase, for a total 2018 PRA of 1.50%, be granted. As this PRA is effective July 1, 2019, and as the first cost of living for pensioners once they join OMERS in 2019, will be re-set to January 1 (½ of the calculated 2018 cost of living), this increase now, will provide that pensioners receive effectively a full year's cost of living in 2019.

The estimated actuarial cost of the increase ($0.6 million on both a solvency and going-concern basis as at December 31, 2017) will be payable from the assets of the Plan, and will reduce the existing solvency surplus from $1.4 million to approximately $0.8 million.

CONTACT

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SIGNATURE

Mike St. Amant
Treasurer

ATTACHMENTS

Attachment 1: The Corporation of the City of York Employee Pension Plan, Funding Valuation Report as of December 31, 2017

Attachment 2: Certification Letter (June 1, 2018) from Mercer Canada, Indicating Adequate Surpluses on Going Concern and Solvency Bases, to Support a 1.5% PRA to York Plan Members Effective July 1, 2018