GM29.11 Attachment 2

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Mr. Michael Caldarelli
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01 June 2018

Subject: Estimated Funded Position as at October 31, 2018 for the Corporation of the City of York Employee Pension Plan Under OMERS Transfer Basis – 1.50% increase as at July 1, 2018

Dear Michael:

As requested, we have prepared an estimate of the funded position as at October 31, 2018 for the Corporation of the City of York Employee Pension Plan (the "Plan") on the OMERS transfer basis. Our calculation reflects the proposed cost of living adjustment ("COLA") of 1.50% as at July 1, 2018 from the Plan, the expected OMERS COLA of 1.00% as at January 1, 2019 and 2.00% increases thereafter.

The table below shows the estimated funded position as at October 31, 2018 reflecting the COLAs described above:

CORPORATION OF THE CITY OF YORK EMPLOYEE PENSION PLAN	ESTIMATED POSITION AS AT OCTOBER 1, 2018 ($Millions)
Projected Market Value of Assets	37.2
Projected OMERS Transfer Basis Liability	36.9
Estimated Surplus	0.3

The actual position as at October 31, 2018 could be different than projected due to many factors as noted in this letter. Two such risks include the actual investment performance over the period and liability experience gains or losses with respect to the actual membership group as at the effective date of transfer.

With respect to the investment performance, we note that, the above estimate is based on the expected return on the current investment (Short-Term Bond Fund) from May 24, 2018 to October 31, 2018 of 0.9%. However, if the actual return is less than 0.2% a deficit will arise and there is about a 38% probability that the return may be below 0.2%. However, if a change from the current investment to a Money-Market Fund were made, the expected return would decline to 0.5% and the estimated surplus would decline to about $0.1M, but the probability of a deficit arising would be close to 0. In these circumstances a change from the current investment to a Money-Market Fund could mitigate the investment risk while still being sufficient to provide the 1.50% COLA.

You have also requested the estimated cost of a 1% increase as at July 1, 2018. It is approximately $0.4M on the OMERS basis. Therefore, if the plan continues to invest in the Short-Term Bond Fund and the fund performs as expected, the estimated surplus as at October 31, 2018 would be nil with an additional COLA of 0.75% (for a total 2.25% COLA). However, higher COLAs increase the risk that a deficit position could arise as at October 31, 2018. If the plan invests in the Money-Market Fund, we would not recommend additional increases beyond the 1.50% COLA discussed above.

The plan formula provides for a COLA of 0.3% as at July 1, 2018. A higher COLA would require a plan amendment and inclusion of the increase in the funding actuarial report as at December 31, 2017. While the new Ontario funding regulations are not completely clear, our view is that an amendment could be provided without requiring any immediate cash contributions for the COLAs specified in this letter.

We note that the above figures are high level estimates only. Please review the important notes and disclosures in the Appendix of this letter for more information. Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios.

Sincerely,

Armando Fernandes, F.S.A., F.C.I.A.
Senior Associate

Copy:
Manual Monteiro, Mercer
Pawel Piesowicz, Mercer
Chiara Moraglia, Mercer

Attachment

LIABILITIES

The liability values shown in this letter are extrapolated from the preliminary funding valuation results as at December 31, 2017 as presented at the Corporation of the City of York Pension Committee Meeting on April 12th (the “2017 Presentation”). The report on the actuarial valuation for funding purposes as at December 31, 2017 has not yet been prepared due to recent changes in regulations effective May 1, 2018. However, the use of the new actuarial valuation is subject to the same important notes that are included in the Report on the Actuarial Valuation as at December 31, 2016 (the “2016 Report”). The results shown in this letter are also subject to the same Important Notices and qualifications described in the 2016 Report except as specifically noted in this letter. The 2017 Presentation and 2016 Report are incorporated by reference into this report, and is essential to understanding these results. If you do not have a copy of the 2017 Presentation or the 2016 Report, please let us know immediately.

The results are based on the actuarial assumptions that have been provided to us by the City of Toronto which are to be the actuarial basis for transferring liabilities to OMERS. These assumptions are consistent with going-concern assumptions under the current rules as shown in the 2017 Presentation, except for the following:

ASSUMPTION	OMERS TRANSFER BASIS
Discount rate:	4.50%
Future indexing rate:	1.50% at July 1, 2018 1.00% at January 1, 2019 2.00% from January 1, 2010, thereafter (OMERS transfer basis)

The results shown are based on the membership data used in the 2017 Presentation assuming expected demographic changes since December 31, 2017. However, the future is uncertain, and the Plan’s actual experience will likely differ from the assumptions utilized; these differences may be significant or material.

The results shown in this report are based on plan provisions provided by the plan administrator. No changes to the plan provisions were assumed except for the provision for the proposed indexing of 1.5% at July 1, 2018, 1.00% at January 1, 2019, and 2.00% from January 1, 2020, thereafter.

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ASSETS

We have extrapolated the assets from January 1, 2018 to October 31, 2018, assuming the rate of return during this period will be 0.9%. This estimate is composed of 0% being the actual rate of return from January 1, 2018 to May 24, 2018, and a 5/12^{ths} of 2.3%, being the current average yield on the FTSE TMX Short Term Bond Index.

We have relied upon CIBC Mellon statements for the market value of assets from January 1, 2018 to April 30, 2018.

In addition, the assets were reduced by the “OMERS Administration Fee” of $0.3M.

Note that both assets and liabilities were reduced by the expected benefit payments of $3.5M in 2018 (from January 1, 2018 to October 31, 2018).