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TORONTO

REPORT FOR ACTION

Toronto Civic Employees' Pension Plan – Funding Valuation Report as at December 31, 2018

Date: May 8, 2019
To: General Government and Licensing Committee
From: Controller
Wards: All

SUMMARY

This report submits, for the Committee's information, a Funding Valuation Summary as at December 31, 2018 on the Toronto Civic Employees' Pension Plan (the Plan) prepared by Buck HR Consulting. The Plan is financed by The Toronto Civic Employees' Pension and Benefit Fund (the Fund). This valuation provides information on the automatic cost-of-living increase of 2.30% in pensioner benefits effective January 1, 2019, called for under By-law 100-2018 governing the Plan and the Fund. The By-law contains a consolidation of former governing By-law 380-74, all its subsequent amending by-laws, and harmonizes the Plan text with a number of established administrative practices.

The Civic Pension Plan, similar to the Fire Plan, but unlike the Metro and Police Plans, has specific criteria in its By-law which, if satisfied, grants members an automatic cost-of-living increase assuming an appropriate valuation, and therefore council is not required to approve it.

On May 1, 2018, new provincial funding rules for defined-benefit pension plans came into effect which are incorporated into the 2018 Valuation Report, which sets forth the financial position of the Fund for the year ended December 31, 2018 on Going Concern and Solvency bases, and confirms that the Fund does not require any special payments by the City of Toronto.

The Charts below summarize the financial position of the Fund as at December 31, 2018 and December 31, 2017 based on the Actuarial Valuations for those years.

Going Concern Valuation – This type of valuation assumes that the Plan will continue to operate until all pensions are paid out.

Table 1 – Going Concern Valuation ($ millions)		
	December 31, 2018	December 31, 2017
Assets	$308.7	$321.5
Liabilities	$193.8	$212.8
Surplus / (Deficit)	$114.9	$108.7

Solvency Valuation – This type of valuation assumes that the Plan was wound up on the valuation date (*i.e.,* December 31st, 2018) and the assets used, to the extent necessary, to meet existing liabilities including the purchase of annuities for the pensioners and any unretired members.

Table 2 - Solvency Valuation ($ millions)		
	December 31, 2018	December 31, 2017
Assets	$302.4	$330.1
Liabilities	$185.0	$206.4
Surplus / (Deficit)	$117.4	$123.7
	Valuation is being filed with FSCO	Valuation was filed with FSCO

RECOMMENDATIONS

The Controller recommends that:

1. The General Government and Licensing Committee receive this report for information, including the "Funding Valuation Report as of December 31, 2018" (attached as Attachment 1) prepared by Buck HR Consulting with respect to the Toronto Civic Employees' Pension and Benefit Plan and its underlying Fund.

FINANCIAL IMPACT

There is no financial impact as a result of this report. The Plan's actuary has certified that the criteria specified in the governing by-law for an increase in pensioner benefits has been met, and that there should therefore be an automatic benefits increase of 2.30% as of January 1, 2019. There are no additional payments required to be made by the City in 2019 and none are anticipated in subsequent years, given the expected merger with OMERS in the fall of 2019.

The initial annual estimated cost to the Fund due to the 2019 increase will be $548,779. This cost was arrived at by applying the 2.30% to an approximated yearly payroll derived from the last monthly pay cycle of 2018.

The Fund Report reflects the estimated actuarial cost (present value) of the 2019 increase in pensioner benefits on a Solvency basis was $4.3 million as at December 31, 2018 and on a Going Concern basis was $4.5 million. The increase will be payable from the assets of the Fund with no contribution required by the City. 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.

As at December 31, 2018, The City administered five (5) pre-OMERS defined-benefit pension plans, with total assets of approximately $1.5 billion. The plans are:

- Corporation of the City of York Employee Pension Plan (**York Plan**)
- Toronto Civic Employees' Pension Plan (**Civic Plan**)
- Metropolitan Toronto Police Benefit Fund (**Police Plan**)
- Metropolitan Toronto Pension Plan (**Metro Plan**)
- Toronto Fire Department Superannuation and Benefit Fund (**Fire Plan**)

It costs the City approximately $1 million per year to provide staff and other administrative resources for the five plans. These costs are included in the 2019 Council approved operating budget.

On January 8, 2019, the York Plan formally merged with OMERS and final efforts are in progress to disperse a small surplus to members. Of the four (4) remaining City-Sponsored plans, the Civic, Police, and Metro Plans are expected to merge with OMERS in October 2019, November 2019, and January 2020, respectively. It is expected that a surplus will exist as a result of each of these 3 mergers and that in 2020, these assets will be dispersed to members and to the City of Toronto as per the terms and conditions of respective surplus sharing agreements that have been signed between the City and a small group of Plan trustees who negotiated on behalf of plan members at large. The Fire Plan and the City of Toronto are not pursuing a merger with OMERS at this time.

These 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 Chief Financial Officer and Treasurer has reviewed this report and agrees with the above financial impact information.

DECISION HISTORY

The most recent Actuarial Valuation Report on the Toronto Civic Employees' Pension Fund ("the Fund") and The Toronto Civic Employees' Pension and Benefit Plan, which the Fund finances, is submitted annually to General Government and Licensing Committee. The last such report was considered by Government Management Committee at its meeting held on June 5, 2018 when it adopted Government Management Committee report GM28.4 titled "Toronto Civic Employees' Pension and Benefit Fund – Actuarial Report as at December 31, 2017".

Following is the link to the report and decision document:

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.GM28.4

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. At or around June 2019, it is expected that a new independent regulatory agency, the Financial Services Regulatory Authority of Ontario (FSRA) will assume the mandates of FSCO, as well as the Financial Services Tribunal (FST) and the Deposit Insurance Corporation of Ontario (DICO).

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.

The Civic plan has had a long history of healthy surpluses on a Going Concern basis, with an average Going Concern surplus of $108.8 million over the past 10 years. While the regulations that came into effect on May 1, 2018 required that an unfunded Going Concern liability be eliminated by employer special payments amortized over a period not exceeding ten (10) years, there will be no such requirement for the City to make special payments this year, nor into the future given the expected merger with OMERS in the fall of 2019.

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.

Similar to the Going Concern basis, the Civic Plan has traditionally been tremendously healthy on a Solvency basis, with an average 10-year surplus of $87.4 million. Given that special employer payments are only required if assets are less than 85% of liabilities on a Solvency basis, there will be no need for special payments by the City this year, nor into the future given the expected merger with OMERS in the fall of 2019.

The table below shows a history of Going Concern and Solvency Surpluses / Deficits over the past 10 years:

Table 3 – Historical Going Concern and Solvency Surpluses / Deficits for Civic Plan ($ millions)		
Effective Date	**Going Concern Surplus / (Deficit)**	**Solvency Surplus / (Deficit)**
December 31, 2009	$139.6	$68.7
December 31, 2010	$112.5	$82.3
December 31, 2011	$94.6	$53.5
December 31, 2012	$98.8	$54.0
December 31, 2013	$87.2	$90.2
December 31, 2014	$95.4	$94.5
December 31, 2015	$109.9	$85.4
December 31, 2016	$126.4	$105.0
December 31, 2017	$108.7	$123.7
December 31, 2018	$114.9	$117.4
10 year average	**$108.8**	**$87.4**

Past History of Cost-of-Living Increases

By virtue of its longstanding history of significant Going Concern and Solvency surpluses, the Civic Plan has enjoyed regular cost-of-living increases in each of the past 10 years, and so its eligibility for an automatic increase of 2.30% this year is as expected. The table below shows the history of cost-of-living adjustments to the Civic Plan over the past 10 years:

Table 4 – Historical Cost of Living Increases for the Civic Plan	
Effective Date	**Increase**
January, 2009	2.34%
January, 2010	0.29%
January, 2011	1.84%
January, 2012	2.87%
January, 2013	1.54%
January, 2014	0.90%
January, 2015	1.95%
January, 2016	1.12%
January, 2017	1.42%
January, 2018	1.56%

Asset Mix and Investment Returns

The Toronto Civic Employees' Pension Committee (the Pension Committee) is the "administrator" of the Plan and the Fund within the meaning of the PBA, and therefore must ensure that both 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, the Pension Committee has invested the Fund's assets conservatively, through a number of investment managers, in a well-diversified portfolio of equity and fixed-income securities in accordance with the Fund's SIPP. However, in view of the impending merger with OMERS, the Pension Committee has recently modified the SIPP to provide for investment of half of the Fund's assets in the short-term money market as a means of de-risking the existing surplus.

The Pension Committee monitors the performance of the investment managers 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:

Table 5 - Asset Mix	
Cash & Equivalents	2%
Fixed Income	73%
Canadian Equity	10%
U.S. and Other Foreign Equity	15%
TOTAL	100%

The Fund's net rate of return for 2018 was -1.0% compared to 7.8% for 2017.

COMMENTS

The Civic Plan is one of four (4) pre-OMERS pension plans sponsored by the City of Toronto. It covers 393 retired members, and 417 survivor pensioners.

The Fund's Actuary, Buck HR Consulting conducts an annual actuarial valuation of the Fund's assets and liabilities. 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, 2018, under the new rules, the Fund had smoothed actuarial assets of $308.7 million, actuarial liabilities of $193.8 million and a Going Concern excess of $114.9 million, an increase of $6.2 million from the excess of $108.7 million as at December 31, 2017. This increase is primarily as a result of higher-than-expected mortality of plan members.

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, 2018 to satisfy the Fund's obligations. At its meeting held on April 29, 2019, the Pension Committee approved the Solvency valuation on an unsmoothed basis. The Valuation Report shows that on a Solvency basis, the value of the assets of $302.4 million exceeded the Solvency liabilities of $185.0 million, producing a Solvency surplus of $117.4 million (a decrease of $6.3 million from the Solvency surplus of $123.7 million as at December 31, 2017). The decrease in the Solvency surplus was primarily related to lower-than-expected investment returns.

Cost-of-Living Increase

The Fund can fairly be compared to the fund 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 has, since 1997, provided for contingent indexation at a rate equal to the lesser of:

(a) the investment rate of return of the Fund (using a 5-year smoothing technique) in excess of the rate of return required to maintain the actuarial Solvency of the Fund as determined by the Actuary; and

(b) the increase in the year-over-year level of the average Consumer Price Index (CPI) for Canada as published by Statistics Canada,

provided that the Fund is in a sufficient surplus position to cover the cost of the increase.

In respect of 2018, there was an excess investment return as outlined in (a) above, and the increase in the year-over-year level of the average CPI outlined in (b) above was 2.30%.

As required by the Plan's governing Bylaw, and endorsed by the Pension Committee at its meeting held on April 29, 2019, an automatic cost-of-living adjustment is called for in respect of 2018 equal to 2.30% effective January 1, 2019.

The estimated actuarial cost of the increase ($4.3 million on a Solvency basis and $4.5 million on a Going Concern basis as at December 31, 2018) will be payable from the assets of the Fund, and will not create a deficit at this time or into the future given the Fund's Going Concern excess and Solvency surplus.

CONTACT

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SIGNATURE

Andrew Flynn
Controller

ATTACHMENTS

Attachment 1: The Toronto Civic Employees' Pension Plan, Funding Valuation Report as of December 31, 2018 (April 29, 2019)