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TORONTO

REPORT FOR ACTION

Toronto Fire Department Superannuation and Benefit Fund – Funding Valuation Report as at December 31, 2018

Date: June 10, 2019
To: General Government and Licensing Committee
From: Controller
Wards: All

SUMMARY

This report submits, for the Committee's information, a Funding Valuation as at December 31, 2018 on the Toronto Fire Department Superannuation and Benefit Fund (the Fund) prepared by Buck HR Consulting. The Fund finances the pension plan (the Plan). 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 10649 as amended, governing the Plan and the Fund.

At its meeting of May 2, 2019, the Toronto Fire Department Superannuation and Benefit Fund Committee (Benefit Fund Committee) decided in favour of continuing to use existing assumptions to assess the future liability of spouses of retired members, despite the fact that City Staff had compiled *actual* data regarding these same spouses. Had the *actual* spousal data been used, the Going Concern and Solvency liabilities would have increased to a point where only an automatic 0.35% cost-of-living increase could have been granted, as any additional increase would have put the plan into a Solvency deficit.

The Fire Pension Plan, similar to the Civic 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	$206.1	$217.5
Liabilities	$179.6	$191.7
Surplus / (Deficit)	$26.5	$25.8

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	$197.7	$222.8
Liabilities	$186.3	$202.8
Surplus / (Deficit)	$11.4	$20.0
	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 Attachment 1 entitled Toronto Fire Department Superannuation and Benefit Fund Actuarial Valuation Report as of December 31, 2018 prepared by Buck HR Consulting with respect to the Toronto Fire Department Superannuation and Benefit Fund and its underlying Plan.

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 percent as of January 1, 2019. There are no additional payments required to be made by the City in 2019.

The initial annual estimated cost to the Fund due to the 2019 increase, will be $462,767, 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 $4.1 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.

However, next year's December 31, 2019 valuation will incorporate actual data compiled by City of Toronto staff which reflects that, compared to estimates currently being used, significantly more retired members are presently married, and the average age difference between these retired members and their current spouses is greater. Buck HR Consulting, the plan actuary, explained to the Benefit Fund Committee at its meeting of May 2, 2019, that it had the option of delaying the use of actual spousal data until next year's report. Given the option of using the current actuarial assumptions related to the spouses of retired members, and using actual data, the Benefit Fund Committee chose to continue using the existing assumptions for one final year. It is expected that the adoption of actual spousal data as part of the December 31, 2019 valuation will cause a reduction of approximately $8.2 million and $10.9 million, respectively, to the Going Concern and Solvency surpluses.

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.

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 Fire Plan and the City of Toronto are not pursuing a merger with OMERS at this time.

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

DECISION HISTORY

The most recent Actuarial Valuation Report on the Toronto Fire Department Superannuation and Benefit Fund, and the related Plan which it 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 GM28.5 titled "Toronto Fire Department Superannuation and Benefit Fund - Funding Valuation 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.GM28.5

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 Fire Plan has had a history of steady surpluses on a Going Concern basis, with an average Going Concern surplus of $26.6 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.

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 moreover as part of the recently-enacted 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.

Actuarial valuation reports must be filed with FSCO and the Canada Revenue Agency (CRA) at least every three (3) years. If, at the end of any year, a plan had 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.

The table below shows the Going Concern and Solvency Surpluses / Deficits over the past 10 years. As is seen in the footnote to Table 3, the December 31, 2018 surpluses on both bases would be significantly reduced through the mandated use of data regarding actual spouses of retired members. Next year's December 2019 Going Concern and Solvency surpluses are estimated to be reduced by approximately $8.2 million and $10.9 million, respectively. However, because the Benefit Fund Committee decided to file the December, 2018 report with FSCO, the next required filing is not until December, 2021. Since special payments by the City are not required unless that year's report is filed, *and* assets are less than 85% of Solvency liabilities, future special payments in the next 3 years are extremely unlikely.

Table 3 – Historical Going Concern and Solvency Surpluses / Deficits for Fire Plan ($ millions)		
Effective Date	**Going Concern Surplus / (Deficit)**	**Solvency Surplus / (Deficit)**
December 31, 2009	$46.4	$14.0
December 31, 2010	$31.9	$4.5
December 31, 2011	$21.9	$(5.6)
December 31, 2012	$26.6	$(7.9)
December 31, 2013	$9.5	$(5.0)
December 31, 2014	$15.4	$4.7
December 31, 2015	$24.9	$(9.9)
December 31, 2016	$36.9	$3.4
December 31, 2017	$25.8	$20.0
*****December 31, 2018	$26.5	$11.4
10 year average	**$26.6**	**$3.0**

** Had actual data been used regarding the spouses of retired members, the Going Concern surplus would have been $18.5 million and the Solvency surplus would have been $0.7 million*

Past History of Cost-of-Living Increases

Because the Fire Plan has had a mix of Solvency surpluses and deficits, the cost-of-living adjustments that have been granted over the last 10 years have been sporadic, but recent favourable fund performance has ensured increases were granted in three of the last four years. The table below shows the history of cost-of-living adjustments to the Fire Plan over the past 10 years:

Table 4 – Historical Cost of Living Increases for the Fire Plan	
Effective Date	**Increase**
January, 2009	0%
January, 2010	0.29%
January, 2011	0%
January, 2012	0%
January, 2013	0%
January, 2014	0%
January, 2015	1.95%
January, 2016	0%
January, 2017	1.42%
January, 2018	1.56%

Asset Mix and Investment Returns

The Benefit Fund 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, and the fact that the Fire Plan is not merging with OMERS at this time, the Benefit Fund Committee continues to invest 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.

The Benefit Fund 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	48%
Canadian Equity	20%
U.S. and Other Foreign Equity	30%
TOTAL	100%

The Fund's net rate of return for 2018 was -2.0% compared to 8.1% for 2017.

COMMENTS

The Fire Plan is one of five (4) pre-OMERS pension plans sponsored by the City of Toronto. It covers 340 retired members, and 303 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 $206.1 million, actuarial liabilities of $179.6 million and a Going Concern excess of $26.5 million, an increase of $0.7 million from the excess of $25.8 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 May 2, 2019, the Benefit Fund Committee approved the Solvency valuation on an unsmoothed basis. The Valuation Report shows that on a Solvency basis, the value of the assets of $197.7 million exceeded the Solvency liabilities of $186.3 million, producing a Solvency surplus of $11.4 million (a decrease of $8.6 million from the Solvency surplus of $20.0 million as at December 31, 2017). The decrease in the Solvency surplus was primarily related to lower-than-expected investment returns.

Liability Associated with Spouses of Retired Members

As noted above, there are 340 retired members who currently receive a pension from the Fund, whose spouses will be entitled to a survivor pension of 66 2/3% of what the retired member was receiving. As such, a portion of the Going Concern and Solvency liabilities reflects the future liability associated with these survivor pensions. The Plan's longstanding practice has been to use an estimate that 60% of these retired members are married with these spouses being an average of 3 years younger than the retired member.

Recently, City Staff conducted what is referred to as a "life audit" to verify important pensioner information including their living status. In so doing, data was made available for the first time that reflected how many retired members reported that they had spouses, as well as the age and gender of these spouses. In actuality, 270 out of 340 retired members (79%) listed a current spouse, and the average age of these spouses was 4.5 years younger than the retired member. The following tables reflect the impact of using actual spousal data on the Going Concern and Solvency valuations:

Table 6 – Spousal Data Effect on December, 2018 Going Concern Valuation ($ millions)			
	Using Current Assumptions	Using Actual Spousal Data	Reduction of Surplus
Assets	$206.1	$206.1	**($8.2)**
Liabilities	$179.6	$187.6	
Surplus / (Deficit)	$26.5	$18.5	
Cost of 2.30% Cost of Living Adjustment	$4.1	$4.3	
Post-COLA Surplus/(Deficit)	$22.4	$14.2	

Table 7 – Spousal Data Effect on December, 2018 Solvency Valuation ($ millions)			
	Using Current Assumptions	Using Actual Spousal Data	Reduction of Surplus
Assets	$197.7	$197.7	**($10.9)**
Liabilities	$186.3	$197.0	
Surplus / (Deficit)	$11.4	$0.7	
Cost of 2.30% Cost of Living Adjustment	$4.3	$4.5	
Post-COLA Surplus/(Deficit)	$7.1	**($3.8)**	

At its meeting of May 2, 2019, the Benefit Fund Committee was told by its actuary, Buck HR Consulting, that it had no choice but to incorporate the actual spousal data in its December, 2019 valuation, but that it still had the option to use the estimated spousal data one last time as part of the December 2018 valuation. As seen in Table 6, using actual spousal data and granting a 2.30% cost-of-living adjustment still would leave the plan at a $14.2 million dollar surplus on a Going Concern basis. However, as seen in Table 7, using the actual spousal data would have left only a $0.7 million surplus on a Solvency basis, and the Plan would have been limited to only an automatic 0.35% cost-of-living adjustment, as any further amount would put the plan in a Solvency deficit. By a 4-3 vote, the Benefit Fund Committee voted in favour of continuing the use of the current spousal assumptions, thus guaranteeing an automatic 2.30% cost-of-living adjustment effective January 1, 2019, according to the Plan Bylaw.

While the use of *actual* spousal data, in concert with a 2.30% cost-of-living adjustment would put the Plan into a $3.8 million deficit on a Solvency basis, the City would not be obligated to make special payments or produce a letter of credit to make up a Solvency deficiency until the Plan's assets were less than 85% of liabilities, and that year's valuation was filed with FSCO. This would not occur until a Solvency deficit of approximately $30 million existed and this will be closely monitored as the December 2019 valuations, in using actual spousal data, will see reductions of approximately $8.2 million and $10.9 million to the existing respective Going Concern and Solvency surpluses. As noted above, because the December 31, 2018 valuation is being filed, there is no requirement to file again until the December 31, 2021 valuation, which means in all likelihood, no special payments would be required until at least 2022, the year following the report.

Cost-of-Living Increase

The Plan 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 Benefit Fund Committee at its meeting held on May 2, 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 $4.1 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, but for the reasons outlined above, the situation of the Fund will be prudently monitored in the future by City Staff to mitigate any possibility of special payments.

CONTACT

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SIGNATURE

Andrew Flynn
Controller

ATTACHMENTS

Attachment 1: Toronto Fire Department Superannuation and Benefit Fund Actuarial Valuation Report as of December 31, 2018 (May, 2019)