REPORT FOR ACTION

Metropolitan Toronto Pension Plan - Proposed Merger with the OMERS Plan - Implementation of OMERS Indexing

Date: September 12, 2019
To: General Government and Licensing Committee
From: Controller
Wards: All

SUMMARY

This report seeks authority to amend the By-law governing the Metropolitan Toronto Pension Plan (Metro Plan) to add the Ontario Municipal Employees Retirement System (OMERS) provision for annual Consumer Price Indexed (CPI)-linked inflation adjustments, immediately prior to the merger of the Metro Plan with the OMERS Plan under the Pension Transfer Agreement (PTA) between OMERS and the City of Toronto. The PTA requires that Metro Plan members, following a merger with the OMERS Plan, continue to receive their existing benefits and, in addition, become entitled to the same automatic CPI-linked annual adjustment as is provided to all OMERS pensioners. The Metro Plan does not currently contain an indexing provision per se. All historical increases have been ad hoc amendments to the By-law under specified conditions.

The City’s experience with the transfer of the Corporation of the City of York Employee Pension Plan (York Plan) indicates that the consent of the Superintendent of Financial Services (the Superintendent) will be conditional upon enacting this indexing amendment to the Metro Plan.

RECOMMENDATIONS

The Controller recommends that:

1. City Council amend By-law 159-2018, as amended, governing the Metropolitan Toronto Pension Plan to:
   a. add the (Ontario Municipal Employees Retirement System (OMERS) Plan provision for annual unconditional Consumer Price Index-linked inflation adjustments; and
   b. make such other amendments as may be required to facilitate the merger and transfer of assets.
FINANCIAL IMPACT

There will be no expected financial impact to the City, because following the merger, future cost of living increases will be provided by the OMERS Plan. The funding for these future increases will be built into the overall dollar amount transferable by the Metro Plan to the OMERS Plan as compensation for assumption of the liabilities of the Metro Plan, in accordance with the Pension Transfer Agreement signed between the City and OMERS dated December 21, 2017. It is not currently anticipated that any amount will need to be paid by the City to supplement the transfer from the Metro Plan.

The Chief Financial Officer and Treasurer 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.


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.


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.
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.

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

At its meeting held on July 23, 24, 25, 26, 27, and 30, 2018, City Council adopted the recommendations in the report from the Treasurer regarding the Implementation of OMERS Indexing in conjunction with the Proposed Merger of the Corporation of the City of York Employee Pension Plan with the OMERS Plan.

At its meeting held on December 4, 5, and 13, 2018, City Council adopted the recommendations in the report from the Treasurer Regarding the Implementation of OMERS Indexing in conjunction with the Proposed Merger of the Corporation of the City of York Employee Pension Plan with the OMERS Plan, and passed By-law 7-2019.

On January 8, 2019, the York Employee Pension Plan successfully merged with OMERS.

At its meeting held on July 16, 17, and 18, 2019, City Council adopted the recommendations in the report from the Treasurer Regarding the Implementation of OMERS Indexing in conjunction with the Proposed Merger of the Toronto Civic Employee’s Pension Plan with the OMERS Plan, and passed By-law 1181-2019.

At its meeting held on July 16, 17, and 18, 2019, City Council adopted the recommendations in the report from the Treasurer Regarding the Implementation of OMERS Indexing in conjunction with the Proposed Merger of the Metropolitan Toronto Police Benefit Fund Plan with the OMERS Plan, and passed By-law 1182-2019.
COMMENTS

Under the Pension Transfer Agreement dated December 21, 2017 between the City and OMERS, the Metro Plan pensioners will be entitled to receive the same benefits from OMERS that they were entitled to receive before the transfer, except that instead of a possible annual Post Retirement Adjustment based on the actuarial sufficiency of the Plan's assets, they will become entitled to an automatic CPI-linked inflationary adjustment like other OMERS Plan pensioners.

The Metro Plan does not provide for "indexation" per se. In certain past years when the Metro Plan's actuarial valuation report at the end of the previous year showed sufficient surplus to permit a benefit payment increase, Council approved on an ad hoc basis to increase benefit payments, with the increase generally tied to the Canadian Consumer Price Index ("CPI").

In order to implement the OMERS-type unconditional inflationary adjustment, the Metro Plan governing by-law must be amended immediately prior to the transfer of assets to add a provision for annual CPI-linked inflation adjustments. The by-law would then conform to the terms of the Pension Transfer Agreement between the City and OMERS respecting the Metro Plan.

The City is awaiting issuance of a Notice of Intended Decision from the Superintendent of Financial Services (the "Superintendent"), indicating the Superintendent's intent to consent to the transfer of assets from the Metro Plan to the OMERS Plan. Provided that there are no objections received by the Superintendent, and that any preconditions identified in the Notice are fulfilled by the City, the Superintendent will issue a Consent for the transfer after the expiry of the Notice period.

Therefore, this request is being made for authority to amend the by-law accordingly.

It is also recommended that the City Solicitor be given authority to make any other amendments to the governing by-law for the Metro Plan which may be required to facilitate the merger and transfer of assets to OMERS.

CONTACT

Hatem Belhi, Director, Pension, Payroll and Employee Benefits, 416-397-4143; Hatem.Belhi@toronto.ca

SIGNATURE

Andrew Flynn
Controller