



REPORT FOR ACTION

Toronto Fire Department Superannuation and Benefit Fund – Funding Valuation Report as at December 31, 2019

Date: June 22, 2020

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, 2019 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 1.95% in pensioner benefits effective January 1, 2020, called for under By-Law 10649 as amended, governing the Plan and the Fund.

The Fire Pension Plan has specific criteria in its By-law which, if satisfied, grants members an automatic cost-of-living increase, and therefore council is not required to approve it. So long as sufficient surpluses exist on both a Going Concern and Solvency basis, members are entitled to an increase comprised of the lesser of (a) The Plan's 5-year average rate of return less the discount rate used for the current year's Solvency valuation; (b) the increase in the year-over-year level of the average Consumer Price Index (CPI) as published by Statistics Canada. In this case, the second criterion is the lesser of the two, and hence members are entitled to an automatic increase of 1.95%.

On May 1, 2018, new provincial funding rules for defined-benefit pension plans came into effect which are incorporated into the 2019 Valuation Report, which sets forth the financial position of the Fund for the year ended December 31, 2019 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, 2019 and December 31, 2018 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, 2019	December 31, 2018
Assets	\$197.5	\$206.1
Liabilities	\$180.5	\$179.6
Surplus / (Deficit)	\$17.0	\$26.5

Solvency Valuation – This type of valuation assumes that the Plan was wound up on the valuation date (*i.e.*, December 31st, 2019) 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, 2019	December 31, 2018
Assets	\$202.0	\$197.7
Liabilities	\$187.2	\$186.3
Surplus / (Deficit)	\$14.8	\$11.4
	Valuation will be filed with FSRA	Valuation was filed with FSRA

RECOMMENDATIONS

The Controller recommends that:

1. The General Government and Licensing Committee receive this report for information, including Attachment 1 titled "Toronto Fire Department Superannuation and Benefit Fund – December 31 Funding Valuation" and Attachment 2 titled "Toronto Fire Department Superannuation and Benefit Fund – Financial Position Updates – Follow-up to May 26, 2020 Pension Committee Meeting" 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 1.95% as of January 1, 2020. 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 2020 increase, will be \$384,632, arrived at by applying the 1.95% to an approximated yearly payroll derived from the last monthly pay cycle of 2019.

The Fund report reflects the estimated actuarial cost (present value) of the 2020 increase in pensioner benefits on a Solvency basis was \$3.7 million as at December 31, 2019 and on a Going Concern basis was \$3.5 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.

At its meeting of May 26, 2020, in light of recent adverse effects in various financial markets brought about by the COVID-19 pandemic, the Committee took measures to ascertain the health of the Fund in real-time, before voting to receive the December 31, 2019 actuarial information.

Because receipt of the actuarial information by the Committee would trigger the process to grant the automatic 2020 Cost of Living Increase, the Committee wanted comfort in knowing that this increase would not jeopardize the long-term stability of payments to Plan members.

When the committee voted on whether or not to receive the actuarial information it did so based on the following information:

- As at March 31, 2020, the fund had experienced unrealized losses in externally managed funds of approximately \$18MM since January 1, 2020, according to a quarterly investment review provided by Investment Consultant Aon
- As at May 26, 2020, City Staff analyzed data from the Fund Custodian, CIBC Mellon, and determined these same externally managed funds had experienced subsequent unrealized gains of approximately \$10MM since March 31, 2020. The rebound in the values of these assets as seen in the March 31 and May 26 data reflects a change in market conditions during this period which was beneficial to the Fund
- This approximate overall unrealized loss of \$8MM between January 1, 2020 and May 26, 2020 meant the \$14.8MM surplus on a solvency basis at January 1, 2020, had not been totally eroded based on recent market events and that adequate surplus to pay the 1.95% Cost of Living increase still existed at the time of the decision to receive the Actuarial report from Buck Consulting

Subsequently, the Committee voted to receive the actuarial report and grant the 1.95% Cost of Living increase to members effective January 1, 2020. Furthermore, at the Committee's request, Buck Consulting prepared an estimate of the Fund's Surplus as at May 31, 2020 (attached as Attachment 2), which indicates that even after the increase is paid to members effective January 1, 2020, a surplus of approximately \$3M will exist. As such, the Committee is satisfied that enacting this automatic increase will not adversely affect its longstanding obligations to members.

The December 31, 2019 valuation incorporates actual data compiled by the City of Toronto reflecting the age and gender of the spouses of retired members, as opposed to estimates of retired members that were married and the ages of these spouses used

in prior years. The adoption of actual spousal data as part of the December 31, 2019 valuation caused a reduction of approximately \$5.4 million and \$6.6 million, respectively, to the Going Concern and Solvency surpluses.

At present time, the Fire Plan is the last of what used to be five (5) Plans administered by the City of Toronto, and comprises total assets of approximately \$202.0 million. The other 4 plans have merged with OMERS in the past year and a half including:

- Corporation of the City of York Employee Pension Plan (**York Plan**) – Merged with OMERS January 8, 2019
- Toronto Civic Employees' Pension Plan (**Civic Plan**) – Merged with OMERS October 7, 2019
- Metropolitan Toronto Police Benefit Fund (**Police Plan**) – Merged with OMERS November 5, 2019
- Metropolitan Toronto Pension Plan (**Metro Plan**) – Merged with OMERS January 8, 2020

Final efforts are in progress to disperse a surplus to members of these four plans, 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 exception is the York Plan which has no surplus-sharing agreement, and for whom a very small surplus will be distributed entirely to eligible retired members and spouses.

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 above 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 General Government and Licensing Committee at its meeting held on June 24, 2019 when it adopted report GL6.9 titled "Toronto Fire Department Superannuation and Benefit Plan - Actuarial Report as at December 31, 2018.

Following is the link to the report and decision document:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.GL6.9>

ISSUE BACKGROUND

Ontario pension plans are governed by the *Pension Benefits Act* (PBA) and regulated through the Financial Services Regulatory Authority of Ontario (FSRA). FSRA 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.

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 \$23.6 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 FSRA 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. The Benefit Fund Committee, at its May 26, 2020 meeting, decided to file the December, 2019 report with FSRA, and as such the next required filing is not until the December 2022 valuation. 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, 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
*December 31, 2019	\$17.0	\$14.8
10 year average	\$23.6	\$3.0

* Going Concern and Solvency Surpluses are estimated to be \$5.4MM and \$6.6MM lower, respectively, than they otherwise would have been, by switching to using actual retired member spousal data.

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 five of the last six 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, 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%
January, 2019	2.30%

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 2019 was 13.2% compared to -2.0% for 2018.

COMMENTS

The Fire Plan is the only pre-OMERS pension plan sponsored by the City of Toronto. It covers 317 retired members, and 299 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, 2019, the Fund had smoothed actuarial assets of \$197.5 million, actuarial liabilities of \$180.5 million and a Going Concern excess of \$17.0 million, a decrease of \$9.5 million from the excess of \$26.5 million as at December 31, 2018. This decrease is primarily as a result of the adoption of actual data related to the spouses of retired 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, 2019 to satisfy the Fund's obligations. At its meeting held on May 26, 2020, 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 \$202.0 million exceeded the Solvency liabilities of \$187.2 million, producing a Solvency surplus of \$14.8 million (an increase of \$3.4 million from the Solvency surplus of \$11.4 million as at December 31, 2018). The increase in the Solvency surplus was primarily a result of stronger-than-expected investment returns.

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 2019, 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 1.95%.

As required by the Plan's governing Bylaw, and endorsed by the Benefit Fund Committee at its meeting held on May 26, 2020, an automatic cost-of-living adjustment is called for in respect of 2019 equal to 1.95% effective January 1, 2020.

The estimated actuarial cost of the increase (\$3.7 million on a Solvency basis and \$3.5 million on a Going Concern basis as at December 31, 2019) will be payable from the assets of the Fund, and will not create a deficit at this time.

CONTACT

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SIGNATURE

Andrew Flynn
Controller

ATTACHMENTS

Attachment 1: Toronto Fire Department Superannuation and Benefit Fund – December 31 Funding Valuation (May 26, 2020)

Attachment 2: Toronto Fire Department Superannuation and Benefit Fund – Financial Position Updates – Follow-up to May 26, 2020 Pension Committee Meeting (June 3, 2020)