TORONTO

STAFF REPORT
ACTION REQUIRED

Toronto Civic Employees' Pension & Benefit Fund – Actuarial Report as at December 31, 2009

Date:	May 3, 2010
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2010\Internal Services\ppeb\gm10003ppeb (AFS#10857)

SUMMARY

This report submits the Actuarial Valuation as at December 31, 2009 for the Toronto Civic Employees' Pension and Benefit Fund (the Fund) and provides recommendations for a cost-of-living increase of 0.29% to pensioners effective January 1, 2010.

The 2009 Valuation sets forth the financial position of the Fund for the year ended December 31, 2009 on both a going concern and solvency basis, and confirms that the Fund does not require any special payments by the City of Toronto.

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council receive the "Actuarial Valuation Report as at December 31, 2009" prepared by Buck Consultants Ltd. with respect to the Toronto Civic Employees' Pension and Benefit Fund.

2. City Council approve, effective January 1, 2010, a cost-of-living increase of 0.29% in pension benefits to pensioners of the Toronto Civic Employees' Pension and Benefit Fund at an estimated actuarial cost of $0.9 million on a solvency basis which will be borne by the Fund.

3. By-Law No. 380-74 of the former City of Toronto governing the Toronto Civic Employees' Pension and Benefit Fund as amended to date be further amended accordingly and authority be granted to introduce the necessary bill in Council.

4. City Council authorize the appropriate City officials to take the necessary action to give effect to the foregoing recommendations.

Financial Impact

The estimated actuarial cost of the recommended 0.29% cost-of-living increase is $0.8 million on a going-concern basis and $0.9 million on a solvency basis. This increase is payable from the assets of the fund and would not create any funding shortfall or financial difficulty for the Fund.

As at December 31, 2009, the Fund had a smoothed going-concern surplus of $139.6 million and an unsmoothed solvency surplus of $68.7 million.

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

DECISION HISTORY

The Actuarial Valuation Report of the Fund is submitted annually to Council. The last such report was considered by City Council at its meeting held on September 30, 2009 and October 1, 2009, when it adopted Government Management Meeting Report No. 24, Item GM24.13 entitled "Toronto Civic Employees' Pension and Benefit Fund - Actuarial Report as at December 31, 2008".

Following is the link to the decision document and the report.
http://www.toronto.ca/legdocs/mmis/2009/gm/reports/2009-09-17-gm24-cr.htm#GM24.13

ISSUE BACKGROUND

The pension plan for which the Fund exists is one of five pre-OMERS pension plans sponsored by the City of Toronto. It covers (1) one active member, 835 retired members and 662 survivor pensioners. The Fund's Administrator is The Toronto Civic Employees' Pension Committee (the Pension Committee).

Pension plans are governed by the *Pension Benefits Act* (PBA) and regulated through the Financial Services Commission of Ontario (FSCO). The FSCO is an arm's-length agency of the Ontario Ministry of Finance, which is responsible for the administration and enforcement of the PBA and regulations under the Act. The PBA establishes the minimum standards for registered pension plans and the regulations under it require, the preparation and filing (at least every three years) of an Actuarial Valuation of 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: assumes that the plan will be ongoing for an indefinite period of time. The valuation predicts how liabilities and assets are likely to accumulate in the future. A going-concern comparison of the plan's projected performance with its actual performance over the past three (3) year period can generate either a going-concern surplus (if the valuation shows the plan to be over-funded) or an "unfunded liability" (if the valuation shows the plan to be under-funded). An unfunded liability on a going-concern basis must be eliminated by the employer by one or more special payments which may be amortized over a period not exceeding fifteen (15) years.

Solvency valuation: assumes that the plan was wound up on the Valuation date with all amounts coming due (*i.e.*, as if its assets had been used to meet its existing liabilities, including the purchase of annuities for its pensioners and unretired members). If a plan had greater assets than liabilities on a solvency basis on the Valuation Date, it has an actuarial surplus. If there were more liabilities than assets the plan has a "solvency deficiency" and, in order to comply with the PBA, that deficiency must be eliminated by the employer 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) every three (3) years, unless at the end of any year the plan has a going concern unfunded liability or a solvency deficiency in excess of 10% (*i.e.*, the plan is less than 90% funded) in which case it must be filed each year, until the deficiency is eliminated.

Asset Mix and Investment Returns

Given the demographics of the plan, the Pension Committee invests the Fund's assets conservatively in a well-diversified portfolio of equity and fixed-income securities. The Pension Committee monitors the investments of the Fund prudently with advice from an investment consultant who is retained by the Committee and in accordance with the Fund's Statement of Investment Policies and Procedures, which is reviewed and approved annually by the Committee.

The target asset mix of the Fund as set out in the Statement of Investment Policies and Procedures is as follows:

Asset Mix	
Cash & Equivalents	0%
Bonds	50%
Canadian Equity	20%
U.S. and Other Foreign Equity	30%
TOTAL	**100%**

The annual market rate of return of the Toronto Civic Employees' Pension and Benefit Fund was 13.4% for 2009.

COMMENTS

The fund's Actuary, Buck Consultants Ltd., conducts an annual actuarial valuation of the Fund's assets and liabilities and recently submitted to the Pension Committee its actuarial valuation report for 2009. The purpose of the valuation is to determine:

(a) the financial position of the Fund as at December 31, 2009 on both a going-concern and a solvency basis; and

(b) the minimum funding requirements by the City and the plan members during the 2009 calendar year.

Going Concern Valuation

The valuation shows that at December 31, 2009, the Fund had actuarial assets of $411.3 million, actuarial liabilities of $271.7 million and a going-concern surplus of $139.6 million.

Solvency Valuation

As part of the Actuarial Valuation, the actuary completed a solvency valuation comparing the fund's assets at market value with the cost to satisfy the fund's obligations by purchasing annuities at wind-up. The report shows that on a solvency basis, the value of the assets of $376.9 million exceeds the solvency liabilities of $308.2 million, producing a solvency surplus of $68.7 million.

Cost-of-Living Increase

The Fund can be compared to the Ontario Municipal Employees Retirement System (OMERS) on the basis of plan design and municipal employee plan membership. However, while OMERS provides for automatic indexation, the Fund is governed by By-law No. 380-74 of the former City of Toronto as amended which provides for automatic annual cost of living increases in the Consumer Price Index (CPI) only if the following conditions are met:

(i) there must be sufficient surpluses available to provide for an additional increase;

(ii) the smoothed investment rate of return for the year in question (which may be negative) must exceed the rate of return required to maintain the actuarial solvency of the Fund.

The financial position of the Fund indicates that there are sufficient surpluses available to provide for an increase. However, the smoothed investment rate of return for 2009 was 4.28% and the required return to maintain the actuarial solvency of the Fund was 4.81%. As a result, condition (ii) was not met and an automatic increase is not called for.

However, given the current healthy financial position of the Fund which reflects a surplus on both a going-concern and a solvency basis, the Pension Committee has recommended that an *ad hoc* cost-of-living increase of 0.29% be approved effective January 1, 2010. The recommended cost of living increase is calculated by dividing the average CPI for the current year by the average CPI for the previous year. The actuarial cost of this increase would be $0.9 Million on a solvency basis and would be funded through the assets of the Fund.

The Pension Committee at its meeting held April 14, 2010, approved the 2009 Actuarial Valuation report, recommended a cost-of-living increase of 0.29% for the year 2010 and requested that the recommendation be forwarded to Committee and Council for its consideration and approval.

In reviewing both the current financial status of the Plan as well as the forecasted financial position of the Plan over the next few years, staff are supportive of the ad hoc cost of living of 0.29% effective January 1, 2010 approved by the Pension Committee at its April 2010 meeting. The attached letter from Buck Consultants (attached as Attachment 2) verifies that the plan has sufficient surplus to fund the cost of the proposed increase.

CONTACT

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SIGNATURE

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Giuliana Carbone
Treasurer

ATTACHMENTS

Attachment 1: Toronto Civic Employees Pension & Benefit Fund, Actuarial Valuation Report as of December 31, 2009
Attachment 2: Letter from Buck Consultants dated April 20, 2010