CITY OF HAMILTON
Corporate Services
Financial Services

TO:	Chair and Members HMRF/HWRF Pension Administration Sub-Committee
COMMITTEE DATE:	December 3, 2015
SUBJECT/REPORT NO:	Hamilton Municipal Retirement Fund (HMRF) December 31, 2014 Valuation (FCS15080) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Barb Howe (905) 546-2424, ext. 5599
SUBMITTED BY: **SIGNATURE:**	Mike Zegarac General Manager Finance & Corporate Services Department

RECOMMENDATION

(a) That the December 31, 2014 actuarial valuation for the Hamilton Municipal Retirement Fund (HMRF) per Appendix "A" to Report FCS15080 be received for information.

(b) That staff be directed to report back on the feasibility of transferring the City of Hamilton's pension plans to OMERS under Section 80.4 of the Pension Benefit Act, R.S.O 1990.

EXECUTIVE SUMMARY

The December 31, 2014, valuation indicates that the plan has a $4.3 million surplus on a going concern basis compared to a $.3 million surplus at December 31, 2011. The increase is attributed to, a $3.0 million gain in plan experience such as gains in investments and mortality experience and an addition $1 million due to changes in the asset valuation method from a smoothed value to market value as well as an update to the mortality tables prescribed by the Actuarial Standards Board (ASB).

On a solvency basis, the plan presently has a solvency surplus of $5.4 million compared to a $5.2 million deficit at December 31, 2011. The solvency ratio increased to 1.07 (0.94 – 2011). Since the solvency ratio is not less than 0.85, there are no solvency issues requiring funding and consequently the next valuation would not be required until December 31, 2017.

Alternatives for Consideration - Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: Since the HMRF plan has no solvency issues, no special funding payments are required and therefore there are no financial implications to the City at this time.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Under Provincial legislation, the administrator is required to file an actuarial valuation every three years and within nine months of the valuation date. The last valuation filed was on December 31, 2011; consequently the current valuation should be filed by September 30, 2015. However the City was granted an extension from the Financial Services Commission of Ontario (FSCO) to October 30, 2015.

Further, the *Pension Benefit Act* requires that, when the ratio of solvency assets to the solvency liabilities is less than 0.85, then actuarial valuations must be completed annually. Since, the solvency ratio at December 31, 2014, was 1.07, there are no solvency concerns; therefore, a valuation will not be required until December 31, 2017.

Each valuation requires the plan to be valued using three different methods:

(i) Going Concern Basis – this valuation assumes that the plan will continue indefinitely. Consequently to calculate funding requirements, an actuary selects an interest rate for the pension fund based on an assumed long-term average return. Any funding deficiencies must be eliminated through payments made over a period of 15 years.

(ii) Solvency basis – is intended to calculate the funding required to pay for all benefits if the plan were to wind up on the valuation date. To determine solvency funding requirements, an actuary must use interest rates based on current Government of Canada bonds. Any funding deficiencies must be eliminated through payments made over a period of 5 years. Under current legislation, post retirement indexation can be excluded from the solvency valuation.

(iii) Wind-up Basis – similar to the solvency basis, this valuation assumes that the plan would be wound up at the valuation date, but includes <u>all benefit</u> obligations, such as post-retirement indexing.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

None

RELEVANT CONSULTATION

Towers Watson, the fund's Actuary, prepared the December 31, 2014, actuarial valuation. As required by legislation, the valuation was filed with the Financial Services Commission of Ontario (FSCO) and Canada Revenue Agency (CRA).

ANALYSIS AND RATIONAL FOR RECOMMENDATION
(Include Performance Measurement/Benchmarking Data if applicable)

The HMRF plan is a closed plan and is comprised mainly of fire personnel and some non-fire former City of Hamilton employees hired prior to July 1, 1965. The following Chart provides a synopsis of the plan position and membership as at December 31, 2014, compared to the December 31, 2011 valuation:

	($ in millions)	
	2014	**2011**
Going Concern Basis		
Valuation Assets	$82.1	$83.5
Accrued Liabilities	$77.8	$83.2
Actuarial Surplus(Deficit)	$ 4.3	$ 0.3
Solvency Basis		
Solvency Assets	$82.0	$78.0
Solvency Liabilities	$76.6	$83.1
Solvency Surplus(Deficit)	$ 5.4	($ 5.2)
Windup Basis		
Market Value of Assets	$ 82.0	$ 78.0
Windup Liabilities	$ 96.6	$ 105.5
Windup Surplus(Deficit)	($ 14.6)	$(27.5)
Required Annual Special Payment		
Going Concern deficit payment	$0.0	$0.0
Solvency Deficit payment	$0.0	$0.0
# of members	232	252

On a going concern basis, the status of the plan at the valuation date is $4,329,000 compared to the previous surplus of $302,600 at the last valuation date. The increase results from a $3 million gains in plan experience, such as investments exceeding benchmark, pensioners not living as long as assumed, pension increases not as high as assumed. Plus a further $1 million gain as a result of changes in actuarial assumptions, which was a combination of an $8.5 million increase due to the change in asset valuation method and a $7.6 million loss due to the use of updated mortality tables.

On a solvency basis, the status of the plan at the valuation date is a surplus of $5,426,900 compared to the previous deficit of $5,151,900. On a windup basis, the status of the plan at the valuation date is a deficit of $14,614,000 compared to the deficit of $27,477,500 as of the last valuation. The solvency and windup values are essentially the same except that legislation permits the exclusion of the cost of indexation for solvency valuation purposes.

Since the last valuation there has been a change in the asset valuation from the smoothed value of assets to the market value of assets for both the going concern and solvency actuarial basis. There were several reasons for the change:

(a) The valuation method used by the City's other closed pension plans use the market value of assets, and
(b) The City can avoid a going concern deficit of $4.2 million that would have required an annual special payment of $417,000 annually for 15 years, and more importantly,
(c) The City has been long awaiting a change to the pension regulations[1] that will allow single employer pension plans (such as HMRF, HWRF and HSR plans) to be merged with joint sponsored pension plans (such as OMERS). The cost of transferring would be based on a going concern value with assets based on market value at date of transfer. And therefore it did not make sense to fund a liability that does not exist when based on the market value of assets.

The legislation allowing Single Employer Pension Plans (SEPP) to be merged with Joint Sponsored Pension Plans (JSPP) was recently approved by the province and comes into force November 1, 2015 (Ontario Regulation[1] 311/15 and 312/15). The City will be exploring the possibility of transferring all its pension plans to OMERS and report back

---

1 O. Reg. 311/15: CONVERSIONS AND TRANSFERS OF ASSETS UNDER SECTION 80.4 OF THE ACT AND CONVERSIONS UNDER SECTION 81.0.1 OF THE ACT under *Pension Benefits Act, R.S.O. 1990, c. P.8* and O. Reg. 312/15: GENERAL

https://www.ontario.ca/laws/regulation/150312 at a later date regarding the impact to members as well as whether it is cost beneficial to the City.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

None. The filing of this valuation is a legislated requirement.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS15080 – HMRF Actuarial Valuation at December 31, 2014.