



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Services Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	December 07, 2017
SUBJECT/REPORT NO:	Hamilton Street Railway Pension Plan Actuarial Valuation at January 1 2017 (FCS17094) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Barb Howe (905) 546-2424 Ext. 5599
SUBMITTED BY:	Mike Zegarac General Manager Finance and Corporate Services Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That the January 1, 2017 actuarial valuation for the Hamilton Street Railway Pension Plan per Appendix 'C' to Report FCS17094 be received for information;
- (b) That the current budgeted amount of \$5.87 million be increased by \$1 million for the budget year 2019, to fund the special payments for both the Hamilton Street Railway (HSR) Plan and the Hamilton Wentworth Retirement Fund (HWRF), and any additional shortfall be funded from the Pension Deficiency Reserve (112065).

EXECUTIVE SUMMARY

The January 1, 2017 Valuation, attached as Appendix 'C' to Report FCS17094, indicates that the plan continues to be in a deficit position both on a going concern basis and on a solvency basis. The deficit position as at January 1, 2017, on a going concern basis has increased over the previous valuation from \$18.2 million to \$21.2 million and the solvency deficit position increased from \$22.7 million to \$26.1 million. The effect of these changes requires a minimum annual special payment for 2017 of \$4.8 million which has been provided for in the 2017 current budget. However, in order to meet the special payment requirements of both the Hamilton Street Railway Plan and the Hamilton Wentworth Retirement Fund for the valuation period 2017-2019, the current

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budgeted amount of \$5.87 million must be increased by \$1 million for the budget year 2019. In addition, a further \$3 million will be funded from the pension reserve.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: HSR Pension Plan Deficit Funding

Although the plan text includes a provision for indexation, the value of the indexation can be excluded from the valuation both on a going concern basis and on a solvency basis. Currently, the City of Hamilton (City) is partially funding for future indexing on a going concern basis at 66-2/3% of the value. The estimated additional cost to fund future indexation to a 100% level is approximately \$17.8 million and is not reflected in the going concern deficit position of the plan. However, the Financial Services Commission of Ontario (FSCO) does require that the difference in the funding levels (i.e. 33-1/3%) be funded in the year granted. This means, with all else being equal, that each year the required annual special payment will increase by the differential cost of the annual indexation granted for the year. On a solvency basis, the full cost of the indexation has been excluded from its deficit position.

Based on the January 1, 2017 valuation, the minimum contributions for 2017 and the estimated minimum contributions for 2018 and 2019, which includes an estimate for annual pension increases are as follows:

	2017	2018	2019
HSR Minimum Annual Special Payment	\$4,774,800	\$6,419,700	\$ 6,500,500

The 2018 to 2019 minimum annual special payments includes an amount of \$80,100 and \$160,900, respectively, for the estimated impact of indexation in each year. The City elected to defer any new going concern and solvency special payments by 12 months, therefore the 2017 payment excludes the deficit payments resulting from this valuation. The 2017 special payment of \$4.8 million has been provided for in the current budget; Appendix 'A' to Report FCS17094 contains a more detailed breakdown of the HSR annual special payments required during the period 2017-2019.

HSR and HWRF Pension Plan Deficit Funding

The latest valuations for both the HSR and the HWRF plans indicate that the plans are in a deficit position and require combined annual special payments as follows:

HSR and HWRF	2017	2018	2019
Minimum Annual Special Payments	\$5,869,200	\$ 7,752,800	\$ 7,966,400

The total cost of the annual special payments for the HSR and HWRF plans over the three year period is \$21.6 million. Based on a current budget provision of \$5.87 million, this would lead to a shortfall of \$4 million over the same period, of which \$3 million can be funded by depleting the Pension Deficiency Reserve. It is recommended that the remaining \$1 million shortfall be funded by an increase to the 2019 current budget provision.

By December 31, 2019, two of the special payments currently being funded will be fully amortized. This means that the annual special payments will decrease by \$2,726,400 for HSR and \$1,094,400 for HWRF. Therefore by the year 2020, the annual special payments will decrease from \$7,966,400 to \$3,721,700, which will allow the reserve to be replenished by \$3,148,300, representing the excess over the 2019 budget amount (\$6,870,000 - \$3,721,700). A new valuation will be required for December 31, 2019 and may result in additional deficits; therefore in 2020 staff will report back with recommendations regarding any required funding changes. Since legislation allows plans to defer any new deficits by 12 months, the next valuation will not impact the budget until 2021. A report will be brought forward, therefore Appendix 'B' to Report FCS17094, illustrates in greater detail the funding requirements for these two plans.

On May 19, 2017, the Ontario government announced proposed changes to pension plan funding rules which may eliminate the need to fund solvency deficits, however these changes are not expected to become effective until 2018.

Under the proposed legislation, solvency funding payments can be eliminated if the transfer ratio is 0.85 or greater, however under the new rules the going concern valuation would be enhanced. The going concern amortization period will be shortened and a reserve referred to as a Provision for Adverse Deviation (PfAD) must be funded. The size of the required reserve has not yet been announced by the government.

Over the 3 year period the total special payments for both plans equals \$21.6 million, of that \$14 million is related to solvency deficit payments. Therefore,

depending on the size of the PfAD required for the going concern funding, these changes may considerably reduce the required special payments. Staff will be monitoring these changes in conjunction with the plan's Actuary to determine whether it will be beneficial to file a new valuation in 2018.

Staffing: None

Legal: Under legislation, an actuarial valuation must be filed within nine months of the valuation date. Therefore, the January 1, 2017 valuation should be filed by October 1, 2017. Prior to the filing date, the City applied to FSCO for a filing extension to October 31, 2017. Due to this time constraint the January 1, 2017 valuation has been filed with the legislated authorities.

HISTORICAL BACKGROUND

As a result of a court ordered settlement approved on December 22, 2008, between the ATU 107 and the City, all members of the HSR plan were enrolled in the OMERS plan effective January 1, 2009, with future service accruing in the OMERS plan and past service remaining in the HSR plan. All new employees hired on or after January 1, 2009, became members of the OMERS plan. As a result, the HSR plan has become a closed plan. In addition, the settlement provided the following enhancements to the HSR plan:

- a) 100% indexing, equivalent to that provided by OMERS; and
- b) an additional six months of credited service for all qualifying members.

There is also a further provision whereby spousal benefits would be enhanced to 66-2/3% when an actuarial filing does not produce a deficit on either a going concern or solvency basis.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Pension plans are governed by the Pension Benefit Act, R.S.O, 1990. As required by legislation, the valuation will be filed with the Financial Services Commission of Ontario (FSCO) and Canada Revenue Agency (CRA).

RELEVANT CONSULTATION

Actuaries from the firm Aon Hewitt prepared the January 1, 2017 Actuarial Valuation.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The following chart provides a synopsis of the plan position and membership as of January 1, 2017, as compared to January 1, 2014:

	(\$ in millions)	
	2017	2014
Going Concern Basis		
Value of Assets	\$193.5	\$174.4
Accrued Liabilities	\$214.7	\$192.6
Actuarial Surplus(Deficit)	\$(21.2)	(\$18.2)
Solvency Basis		
Value of Assets ¹	\$193.3	\$174.2
Solvency Liabilities	\$219.4	\$196.9
Solvency Surplus(Deficit)	\$(26.1)	\$ (22.7)
Solvency Ratio	.88	.89
Windup Basis		
Value of Assets ¹	\$193.3	\$174.2
Wind-up Liabilities	\$319.0	\$279.7
Wind-up Surplus(Deficit)	\$(125.7)	(\$105.5)
# of active members	388	448
# of retired or deferred	625	598

¹ includes windup expenses of \$200,000.

The 2017 annual payments for the additional deficits realized in the current valuation both on a going concern and solvency basis can be met from the current budget. Since the HWRF plan is also in a deficit position, the budgeted amount of \$5.87 million will need to be increased by \$1 million for the year 2019 and any further shortfall will be funded from the pension reserve. Appendix "B" to Report FCS17094 illustrates the shortfalls in the current budget and the funding required from the pension reserve.

ALTERNATIVES FOR CONSIDERATION

None. The filing of this valuation is a legislated requirement

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement & Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS17094 HSR Schedule of Amortization Payments.

Appendix “B” to Report FCS17094 HWRF and HSR Funding 2017-2020.

Appendix “C” to Report FCS17094 HSR Actuarial Valuation at January 1, 2017.

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