CITY OF HAMILTON
CORPORATE SERVICES
Financial Services and Taxation

TO:	Chair and Members HMRF/HWRF Pension Administration Sub-Committee
COMMITTEE DATE:	December 18, 2018
SUBJECT/REPORT NO:	Hamilton Municipal Retirement Fund (HMRF) December 31, 2017 Valuation (FCS18092) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Barb Howe (905) 546-2424 Ext. 5599
SUBMITTED BY: **SIGNATURE:**	Rick Male Director, Financial Services, Taxation and Corporate Controller Corporate Services Department

RECOMMENDATION

That the December 31,2017 actuarial valuation for the Hamilton Municipal Retirement Fund (HMRF) per Appendix “A” to Report FCS18092 be received for information.

EXECUTIVE SUMMARY

The December 31, 2017 valuation indicates that the plan has a $3.7 million surplus on a going concern basis compared to a $4.3 million surplus at December 31, 2014. The decrease is due to the losses arising from actuarial assumption changes exceeding the gains in plan experience.

On a solvency basis, the plan currently has a surplus of $13.8 million compared to a $5.4 million surplus at December 31, 2014. Since the solvency ratio is currently 1.22 (1.07 – 2014) there are no solvency concerns and consequently no funding is required.

The *Pension Benefit Act* (PBA) requires that, when the solvency ratio is less than 0.85 then actuarial valuations must be completed annually. Since, the solvency ratio at December 31, 2017 was 1.22, the next valuation will not be required until December 31, 2020.

Alternatives for Consideration –Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

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

Legal: None.

Staffing: None.

HISTORICAL BACKGROUND

Under Provincial legislation, the administrator is required to file an actuarial valuation at least every three years and within nine months of the valuation date. The last valuation filed was at December 31, 2014; consequently, the current valuation should be filed by September 30, 2018. However due to the pension funding rule changes recently introduced, plan administrators have been granted a filing extension to November 30, 2018.

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 10 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 selects a rate that is an approximation of the annuity purchase rate. Any funding deficiencies of less than 85% 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 all benefit obligations, such as post-retirement indexing.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

This valuation is the first valuation filed based on the new funding rules recently introduced by the Province. On May 19, 2017 the Ministry of Finance announced proposed reforms to the funding framework for defined benefit pension plans. On April

20, 2018 the final regulations were released, and any valuation dated on or after December 31, 2017 must reflect the new funding rules which came into effect on May 1, 2018.

Key changes to the funding rules include:

Effective Date: The new funding rules apply to actuarial valuation reports dated on or after December 31, 2017. Under the PBA, a plan administrator generally has nine months after the plan valuation date in which to file a valuation report. To give plan administrators and actuaries time to understand the new rules, under the amended legislation, a valuation report dated on or after December 31, 2017 can be filed as late as November 30, 2018 without penalty.

Solvency Funding: A pension plan is required to be funded at 85% (previously 100%) on a solvency basis. If the funded level is less than 85%, then solvency special payments are required and must be amortized over a five-year period. In addition, these payments must begin one year after the date of the valuation report.

Going Concern Funding: A pension plan must still be funded at 100% on a going concern basis however now it must include the estimated cost of indexation in the going concern liabilities. In addition, the amortization period has been reduced from 15 years to 10 years with special payments starting one year after the date of the valuation report. Further, the going concern valuation must include a **Provision for Adverse Deviation (PfAD).**

Provision for Adverse Deviation (PfAD). Under Reg. 250/18, the PfAD is a formula that is applied to the going concern liabilities. It is the sum of three percentages:
(a) a fixed percentage depending on whether the plan is a closed plan,
(b) a percentage depending on the asset mix of the plan, as allocated between fixed and non-fixed income in accordance with the plan's Statement of Investment Policies and Procedures (SIPP). For valuation with a date prior to December 31, 2019, the actual asset allocation reported on the financial statements may be used.
(c) a percentage reflecting the excess of the pension plan's going concern discount rate over a benchmark discount rate.
Although the cost of indexation must be included in the going concern liabilities, it may be excluded when determining the value of the PfAD.

Restrictions on Benefit Improvements: Restrictions on plan amendments that would negatively impact the funding of a plan have been introduced. Immediate funding will trigger if the pension plan is not funded at 80% on both a solvency and going concern basis. The additional unfunded liability associated with the benefit improvement must be funded on a going concern basis over 8 years rather than 10 years.

Plan Documents and Member Communications: As a result of the new rules, changes will be required to a number of plan documents, including the Plan Text and Statement of Investment Policies and Procedures (SIPP). Moreover, additional disclosures will need to be made to members and former and retired members in the annual and biennial statements.

RELEVANT CONSULTATION

Willis Towers Watson, the fund’s Actuary, prepared the December 31, 2017, 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 RATIONALE FOR RECOMMENDATION

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, 2017, compared to the December 31, 2014 valuation:

	($ in millions)	
	2017	**2014**
Going Concern Basis		
Valuation Assets	$77.7	$82.2
Less: Accrued Liabilities	$69.7	$77.8
Actuarial Surplus(Deficit) before PfAD	$ 8.0	$ 4.3
Less: Provision for Adverse Deviation (PfAD)	$ 4.2	N/A
Actuarial Surplus(Deficit)	$ 3.7	$ 4.3
Solvency Basis		
Solvency Assets	$77.6	$82.1
Less: Solvency Liabilities	$63.8	$76.6
Solvency Surplus(Deficit)	$13.8	$ 5.4
Solvency Ratio	1.22	1.07
Windup Basis		
Market Value of Assets	$77.6	$ 82.1
Less: Windup Liabilities	$80.0	$ 96.7
Windup Surplus(Deficit)	($ 2.4)	($ 14.6)
Required Annual Special Payment		
Going Concern deficit payment	$0.0	$0.0
Solvency Deficit payment	$0.0	$0.0
# of members	189	222

On a going concern basis, the status of the plan at the valuation date is $3,739,200 compared to the previous surplus of $4,329,000 at the last valuation date. The decrease is the result of the losses in economic assumption changes (discount rate decrease from 5% to 3.75%, improvements in mortality rates, impact of the PfAD) exceeding the gains in plan experience (investment returns exceeding benchmark, pensioners not living as long as plan assumptions, pensioner increases not as high as assumed).

On a solvency basis, the status of the plan at the valuation date is a surplus of $13,795,000 compared to the previous surplus of $5,426,900. On a windup basis, the status of the plan at the valuation date is a deficit of $2,380,700 compared to the deficit of $14,614,000 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.

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 FCS18092 – HMRF Actuarial Valuation at December 31, 2017.

BH/dw