CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Financial Services and Taxation

TO:	Chair and Members HMRF/HWRF Pension Administration Sub-Committee
COMMITTEE DATE:	December 18, 2018
SUBJECT/REPORT NO:	HMRF/HWRF/HSR Pension Plan Possible Transfer to OMERS (FCS18093) (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 staff be directed to investigate a possible transfer of the City of Hamilton's (City) three legacy pension plans to Ontario Municipal Employees Retirement System (OMERS):

(i) Hamilton Municipal Retirement Fund (HMRF);
(ii) Hamilton Wentworth Retirement Fund (HWRF); and
(iii) Hamilton Street Railway Pension Plan (HSR).

EXECUTIVE SUMMARY

Various meetings have been held with OMERS to determine the feasibility of transferring the City's three legacy plans to OMERS. The City of Toronto had already begun its process to transfer its five legacy plans to OMERS. The transfer for one of their plans should be completed this year and the others are expected to be completed in 2019. Toronto is estimating a surplus of $70-$90 million once all plans are transferred.

A ballpark estimate of the cost to transfer the City's three legacy plans is around $50.6 million. A transfer to OMERS will allow the City to avoid the volatility of future funding costs as plan experience changes, since the risk of managing the pension funds would be transferred to OMERS. Since 1988, the City has contributed more than $94 million to fund plan deficits. The required minimum annual deficit payment for 2018 is $7.8 million, which increases to $8.0 million in 2019. An amount of $5.87 million was budgeted in 2018 and $6.87 million is budgeted for 2019 and the shortfall is funded from the Pension Reserve.

Staff will continue to investigate a potential transfer and to quantify if such a transfer is cost beneficial for the City.

Alternatives for Consideration –Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: None currently.

Legal: None.

Staffing: None.

HISTORICAL BACKGROUND

In 2014, the Ontario government amended the Pension Benefit Act (PBA) under section 80.4, to create a framework intended to facilitate the merger of a Single Employer Pension plan (SEPP), in the public sector into an existing Jointly Sponsored Pension Plan (JSPP) if specific conditions are met. On November 1, 2015 the government passed regulation 311/15 to support these changes.

In November 2015, the City had preliminary discussions with OMERS to understand, at a high level, the necessary steps involved and the potential costing basis that may be used for such transfers. OMERS described a costing model that would be based on a negotiated discount rate on a going concern basis. At the transfer date, the City would be required to make a payment equivalent to the cost and thereafter there would be no further obligation.

At the September 2016 meeting, OMERS described a different methodology that would be based on a negotiated discount rate, but require a further premium known as a ‘true up”. Under this method, after payment had been made at the transfer date, there would be periodic subsequent actuarial reviews and if the assumptions used were insufficient such that a shortfall occurs, then the City would be liable for additional payments. And if there was a surplus, OMERS would grant the City a credit towards their regular monthly OMERS pension contributions. With this method the risk shifted to the City making a potential transfer less desirable.

In February 2017, the City was advised that OMERS had re-assigned the responsibility of mergers to their Borealis group who were more experienced in mergers and acquisitions. Borealis representatives advised that they were not interested in pursuing a “true-up” mechanism because of its complexities and the length of time it would take to receive approval from Financial Services Commission of Ontario (FSCO) and Canada Revenue Agency (CRA).
In March 2018, the City signed a reciprocal Non-Disclosure Agreement (NDA) that will allow both parties to share information that would be essential in developing a cost benefit analysis for any potential transfer. This agreement also binds members of the pension committees and elected officials.

At the May 23, 2018 meeting, OMERS disclosed that its pricing model would be based on a going concern discount rate, which would be the same used for the City of Toronto. OMERS would also need to consider other assumptions and approaches that would be appropriate for the membership of the three City of Hamilton plans. In addition, OMERS would assess a one-time fee to cover the cost of OMERS assuming each of the plans. After this meeting, OMERS was provided with copies of our most recent valuations for all three plans.

At the July 12, 2018 meeting with OMERS they indicated that after reviewing the valuations, that the Hamilton Wentworth Retirement Fund (HWRF) and the Hamilton Municipal Retirement Fund (HMRF) would be the easiest to transfer since there are no active members and all members have outlived their guarantee period. The HMRF transfer would be slightly more difficult since it has a surplus and any surplus withdrawal would require approval from FSCO. The Hamilton Street Railway (HSR) plan would be the most complex since it also has active members and there are some differences in plan benefits which may require OMERS to build a separate administration system. Similar to the City of Toronto, the pricing model would also include an amount to cover the cost of OMERS assuming each of the plans. This amount would be based on a percentage of the actuarial liabilities determined using the pricing model assumptions. The cost recovery amount for the HSR Plan is expected to be greater due to its complexity.

A further meeting was held in November 2018 to update the estimated cost based on the latest HMRF valuation at December 31, 2017 which was finalized in October 2018. This formed the basis for the costing included in Appendix “A” to Report FCS18093.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Section 80.4 of the PBA, and its related regulation 311/15 governs the conversion of a SEPP to another pension plan that is a JSPP. It sets out the following requirements for a transfer:

Notice

- The plan administrator of the SEPP must provide notice of a proposed transfer of assets under section 80.4 to members, former members, retired members, other plan beneficiaries, to any trade union that represents members of the plan, and to the Superintendent of FSCO.

Consent

- The plan administrator must provide a consent form to the union representing active members or to the active member if not represented by the trade union. In the case of retired, former or other plan beneficiaries, the administrator would provide a consent form.

Consent Threshold

- For the transfer to proceed, At least 2/3 of the active members must consent or have consent provided on their behalf by their union; and not more than 1/3 of the retired members, former members and other plan beneficiaries object in writing to the proposed transaction.

Superintendent Consent

- The employer must file an application with the Superintendent for consent to the transfer of assets within nine months after the day that notices were given. The application must include the plan amendments to provide for the transfer of assets and liabilities.

Effective Date

- The effective date of the transfer of assets cannot be earlier than the deadline established for plan members to consent or object.

- The effective date of a conversion must be within 12 months after the date on which the Superintendent consents to the proposed conversion.

Equal Commuted Values for Active Members

- The commuted values of the benefit entitled provided under the JSPP must not be less than the commuted value of the pension benefit under the SEPP.

Replication of Pension Benefits

- Retired members, former members and plan beneficiaries must receive at least the same pension benefits provided to them under the SEPP.

Unfunded Liability

- If the liabilities of the plan are greater than the assets, then the employer must fund the deficit at date of transfer.

Surplus

- If the assets of the plan are greater than the liabilities, then the surplus is distributed. Any surplus distribution must be approved by FSCO.

RELEVANT CONSULTATION

City staff have had various conference calls and meetings with the OMERS staff who are currently working on the City of Toronto' transfer of their legacy pension plans.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

As of July 1, 1965, new municipal employees were required to be enrolled in OMERS. At that time the City of Hamilton (City) administered the HMRF plan. When the Region of Hamilton-Wentworth (Region) was established, the HMRF plan was split into the HMRF and HWRF plans and these members continued to contribute and receive benefits from either the City or Region pension plans.

The HSR pension plan continued to be an active plan. This was challenged by the Amalgamated Transit Union (ATU) who successfully won a class action suit and as of December 31, 2008, the HSR plan became a closed plan. On January 1, 2009, existing members began accruing service under the OMERS plan and all new HSR employees were required to enrol in OMERS.

While the HMRF plan has been well funded, the other two plans have experienced deficits over the years. The HWRF plan has had deficits since at least 1988, while the HSR plan has had a deficit since 2009, when it became a closed plan. Since 1988, and up to the end of the current valuation period (2019), the City will have contributed $60.1 to the HWRF fund and since 2009 it will have contributed $34.1 million to the HSR plan, for a combined total of $94.2 million.

The current combined required deficit payment based on the most recent valuation is $7.8 million (2018) and $8.0 million (2019). The 2018 budget to fund these deficits is $5.87 million and for 2019 this has been increased to $6.87 million with the shortfall funded from the Pension Reserve.

In addition, under the HSR plan a future enhancement arises when an actuarial report discloses a plan surplus. Under the Settlement Agreement dated March 12, 2009, the Plan was amended to include a conditional increase to the joint and survivor normal form of pension to 66 2/3% from 50%. The benefit improvement is conditional upon an actuarial report being filed that discloses a plan surplus on either a going concern, solvency or wind-up basis. All HSR Plan members who were employees on December 31, 2008 would be entitled to this benefit improvement when it comes into effect if they continue to be entitled to a pension from the plan. Given that a potential transfer would occur before a plan surplus could occur, then this enhancement may be raised as an item to be addressed as part of the transfer.

Appendix “A” to Report FCS18093 provides details of the three plans as at the last valuation date. For illustration purposes, Appendix “A” includes an estimate of the one-time cost recovery amount based on these results. Based on the financial position of the plan a rough estimated cost to transfer to OMERS would be around $50.6 million. Below is a summary of this estimate:

	Amount (in millions)
HWRF	$ 4.6
HSR	$39.0
HSR survivor upgrade	$10.0
One-Time fee to OMERS	$5.0
HMRF Surplus	-$8.0
Rough Estimate	$50.6

The current HSR survivor upgrade cost is unknown at this time. Based on information provided by the actuary at December 31, 2008, a rough estimate of the cost was $5.25 million. If the upgrade is required, we have included a conservative amount of $10 million as a current estimate. In addition, a one-time cost recovery amount based on a percentage of plan liabilities would also be required.

There is also a surplus in the HMRF plan of $3.7 million. Included in this surplus was the funding of $4.2 million for a Provision for Adverse Deviation (PfAD) which is required for SEPP plans but not JSPP plans. Therefore, this cost would not be included in the transfer cost, resulting in a surplus of $8.0 million in the HMRF plan. The estimate above assumes the City would be able to withdraw the full surplus and apply the amount against the deficits expected under the other plans at transfer date. However, any surplus withdrawal will require approval from FSCO.

During a review of historical documents supporting the HMRF plan, it was discovered that the HMRF pension committee on December 6, 1988 approved a change to the HMRF By-Law 79-70 with respect to surplus disposition whereby any surplus will revert to the City. This change was approved by City Council on December 13, 1988 and filed with FSCO on December 14, 1988. These changes occurred before the Pension Benefits Act introduced language on surplus disposition. Over the years the legislation on surplus distribution has changed, therefore it is uncertain at this time whether these historical documents would allow the City to have ownership of the surplus.

The ballpark cost to transfer of $50.6 million is provided to give some context to the magnitude of the cost and will vary depending on fund earnings and other actuarial factors.

ALTERNATIVES FOR CONSIDERATION

None.

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 FCS18093 – Summary of City’ of Hamilton Pre-OMERS Closed Plans

BH/dw