



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Services and Taxation Division

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| TO: | Chair and Members HMRP/HWRF Pension Administration Committee |
| COMMITTEE DATE: | November 24, 2020 |
| SUBJECT/REPORT NO: | Hamilton Wentworth Retirement Fund (HWRF) Valuation at December 31, 2019 (FCS20064) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Barb Howe (905) 546-2424 Ext. 5599 |
| SUBMITTED BY: | Rick Male Director, Financial Services, Taxation and Corporate Controller Corporate Services Department |
| SIGNATURE: | |

RECOMMENDATION

That the December 31, 2019 actuarial valuation for the Hamilton Wentworth Retirement Fund (HWRF) per Appendix "A" to Report FCS20064 be received for information.

EXECUTIVE SUMMARY

The December 31, 2019 has shown improvements since the last valuation. The funded status on a going concern basis is a \$2.0 million surplus compared to the previous surplus of \$4.2 million. Although less than the previous valuation, there have been significant legislative changes which requires new valuations to include the cost of future indexing and a provision for adverse deviation. Despite this \$13.3 million cost, the plan is still in a surplus on a going concern basis.

On a solvency basis, the plan currently has a surplus of \$3.8 million compared to a \$3.6 million deficit at December 31, 2016. And on a windup basis the plan has a \$9.5 million deficit compared to the previous \$20.5 million deficit.

Since the solvency ratio is currently 1.08 (0.94 – 2016) there are no solvency concerns and consequently no funding is required. Further, since the solvency ratio is not less than 0.85, the next valuation will not be required until December 31, 2022.

Alternatives for Consideration – Not Applicable

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The HWRF plan has no solvency issues, consequently no special funding payments are required for 2020-2022, and therefore there are no financial implications to the City at this time.

Based on the previous valuation annual special payments were required until December 31, 2022. Prior to the completion of this valuation the City of Hamilton (City) had contributed \$368,944 as at October 2020. Since the current valuation indicates that no special payments are required, then the contribution of \$368,944 has resulted in an excess contribution for 2020. This excess contribution was unavoidable since current legislation does not allow plan administrators to suspend contributions required based on the funding requirements of a previous valuation pending the outcome of a current valuation, nor can any excess contributions be refunded. Therefore, the excess contribution will be applied to the next valuation.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND

The last valuation filed was as at December 31, 2016, and a new valuation is required no later than every three years and within nine months of the valuation date. Under the Pension Benefits Act, if a report indicates solvency concerns, whereby 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, 2019, was 1.08, there are no solvency concerns; therefore, a valuation will not be required until December 31, 2022. For valuations dated December 31, 2019 and January 1, 2020, the regulators have introduced COVID measures to assist plan administrators, by extending the filing deadline from September 30, 2020 to December 31, 2020.

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. Under current legislation, post retirement indexation is included from the going concern valuation as well as a provision for adverse deviation.

(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. On a solvency basis the plan must be at least 85% funded. If the funded status falls below this level, then solvency special payments are required for the unfunded portion below 85%. The unfunded portion can 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 reflecting the new funding rules under Regulation 250/18 which came into effect 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.

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 a fresh start each valuation and any special payments required will commence 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).
- (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

AON Hewitt, the fund's Actuary, prepared the December 31, 2019, actuarial valuation. As required by legislation, the valuation will be filed with the Financial Services Regulatory Authority of Ontario (FSRA) and Canada Revenue Agency (CRA).

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The HWRF plan is a closed plan and is comprised mainly of police personnel and some non-police former City of Hamilton employees hired prior to July 1, 1965. The following chart provides a synopsis of the plan position and membership data as of December 31, 2019, compared to the December 31, 2016 valuation:

| | (\$ in millions) | |
|--|------------------|----------|
| | 2019 | 2016 |
| Going Concern Basis | | |
| Valuation Assets | \$54.8 | \$59.4 |
| Less: Accrued Liabilities | \$48.5 | \$55.2 |
| Actuarial Surplus/(Deficit) before PfAD | \$ 6.3 | \$ 4.2 |
| Less: Provision for Adverse Deviation (PfAD) | \$ 4.3 | N/A |
| Actuarial Surplus/(Deficit) | \$ 2.0 | \$ 4.2 |
| | | |
| Solvency Basis | | |
| Solvency Assets ¹ | \$54.8 | \$59.4 |
| Less: Solvency Liabilities | \$50.9 | \$63.0 |
| Solvency Surplus/(Deficit) | \$ 3.8 | \$(3.6) |
| Solvency Ratio | 1.08 | 0.94 |
| | | |
| Windup Basis | | |
| Market Value of Assets ¹ | \$54.8 | \$59.4 |
| Less: Windup Liabilities | \$64.2 | \$79.9 |
| Windup Surplus/(Deficit) | \$(9.5) | \$(20.5) |
| | | |
| # of members | 140 | 171 |

¹ Market value of assets reduced by windup expenses of \$70,000

Since the going concern funded status is in a surplus position and the solvency ratio is greater than 0.85 there are no funding issues and therefore no special payments are required during the three-year valuation period.

ALTERNATIVES FOR CONSIDERATION

None.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement and 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.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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 FCS20064 – HWRF Actuarial Valuation at December 31, 2019.

BH/dw