CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Services and Taxation Division

TO:	Chair and Members HMRF/HWRF Pension Administration Committee
COMMITTEE DATE:	November 24, 2020
SUBJECT/REPORT NO:	Hamilton Municipal Retirement Fund (HMRF) Valuation at December 31, 2019 (FCS20065) (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 31,2019 actuarial valuation for the Hamilton Municipal Retirement Fund (HMRF) per Appendix “A” to Report FCS20065 be received for information.

EXECUTIVE SUMMARY

The December 31, 2019 valuation indicates that the plan has a $2.5 million surplus on a going concern basis compared to a $3.7 million surplus at December 31, 2017. The decrease is due to the losses arising from actuarial assumptions.

On a solvency basis, the plan currently has a surplus of $13.4 million compared to a $13.8 million surplus at December 31, 2017. And on a windup basis the plan has a $1.5 million deficit compared to the previous $2.4 million deficit.

Since the solvency ratio is currently 1.23 (1.22 – 2017) 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

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 of Hamilton (City) at this time.

Staffing: None

Legal: None

HISTORICAL BACKGROUND

The last valuation filed was as at December 31, 2017, 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 1.23, 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 <u>all benefit</u> obligations, such as post-retirement indexing.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Both the previous valuation and the current reflect the 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 several 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, 2019, actuarial valuation. As required by legislation, the valuation was filed with the Financial Services Regulatory Authority of Ontario (FSRA) 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, 2019, compared to the December 31, 2017 valuation:

	($ in millions)	
	2019	**2017**
Going Concern Basis		
Valuation Assets	$71.4	$77.7
Less: Accrued Liabilities	$65.2	$69.7
Actuarial Surplus/(Deficit) before PfAD	$ 6.2	$ 8.0
Less: Provision for Adverse Deviation (PfAD)	$ 3.7	$ 4.2
Actuarial Surplus/(Deficit)	$ 2.5	$ 3.7
Solvency Basis		
Solvency Assets[1]	$71.3	$77.6
Less: Solvency Liabilities	$57.9	$63.8
Solvency Surplus/(Deficit)	$13.4	$13.8
Solvency Ratio	1.23	1.22
Windup Basis		
Market Value of Assets[1]	$71.3	$ 77.6
Less: Windup Liabilities	$72.8	$ 80.0
Windup Surplus(Deficit)	($ 1.5)	($ 2.4)
# of members	177	189

[1] Market value of assets reduced by windup expenses of $150,000

The going concern valuation decreased by $1.2 million and most of the decrease is attributed to the change in the discount rate from 3.75% to 3.3%. Since the plan is a surplus on both a going concern and solvency basis there are no solvency concerns and therefore no funding requirements. Although a valuation was not required until

December 31, 2020, because of the COVID-19 pandemic and resulting market volatility of 2020, it was determined that it would be prudent to file an early valuation at December 31, 2019.

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.

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 FCS20065 – HMRF Actuarial Valuation at December 31, 2019.

BH/dw