CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Services and Taxation Division

TO:	Chair and Members HMRF/HWRF Pension Administration Committee
COMMITTEE DATE:	March 30, 2023
SUBJECT/REPORT NO:	Hamilton Municipal Retirement Fund (HMRF), Hamilton Wentworth Retirement Fund (HWRF) Plan Wind-Up (FCS23006) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Barb Howe (905) 546-2424 Ext. 5599
SUBMITTED BY: **SIGNATURE:**	Shelley Hesmer (905) 546-2424 Ext 4157 Acting Director, Financial Services, Taxation and Corporate Controller Corporate Services Department Shelley Hesmer

RECOMMENDATION

(a) That the General Manager, Finance and Corporate Services Department, or their designate, be authorized to explore the option of winding up the Hamilton Municipal Retirement Fund (HMRF) and Hamilton Wentworth Retirement Fund (HWRF) pension plans, including performing a survivor audit and mortality study and any other studies necessary; and,

(b) That staff report back to the HMRF/HWRF Pension Administration Committee on pricing estimates to purchase annuities from an insurance company that will provide HMRF and HWRF plan members with the same level of benefit that is currently being provided under their respective pension plans.

EXECUTIVE SUMMARY

An actuary performs a valuation of the HMRF and HWRF pension plan at least every three years. Based on the latest actuarial valuations, neither the HMRF or HWRF plan has funding issues on a solvency or going concern basis. This means there is no special funding payment required at this time. Included in each valuation is the funded status of the plan on a wind-up basis as at the valuation date. A wind up of a plan involves calculating the funding required to purchase annuities from an insurer that will provide the pensioners with the same benefits they currently have under their respective plans. The last valuation dated December 31, 2021, showed that the HMRF plan had a surplus of $12.9 million and the HWRF plan had a deficit of $1.1 million. This means that at the valuation date, the plans in total have enough funds to purchase annuities from an insurance company to meet all the benefit obligations of the plans including post retirement indexing. Given the current state of the pension plans, purchasing annuities would transfer the pension plan benefit obligations for both HMRF and HWRF to the insurance company and completely relieve the City of Hamilton of any future obligations.

Between 1985 and 2020, the City contributed more than $60 million to fund deficits in the HWRF plan. Winding up the plans would relieve the City from any future funding obligations that may occur, and it would also eliminate the administrative efforts of managing and overseeing these pension plans, while having no impact or risk to the pensioners.

The valuations are at a fixed point in time and the wind-up funded status is dependent on the market value of investments (assets) and the cost of all future benefit obligations (liabilities) at that date. Since a wind-up date would need to be chosen in the future there would be no guarantee of the funded status at the chosen date. However, to minimize erosion in the funded status, the City could de-risk its investments. On the liability side, gains could be realized by performing a survivor audit and mortality study which could then be used to secure better pricing for annuities purchased from an insurer. Other studies may be required to assist in the review of the assets, liabilities and investments of the Master Trust Pension Plan arrangement for any changes being considered.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Currently neither plan has funding issues on a solvency or going concern basis so there is no special funding payment required at this time. The plans are either fully or almost fully funded on a wind-up basis which provides an opportunity to wind up the plans and purchase annuities to provide retirees with the same benefit they currently enjoy.

Included in the operating budget is $6.87 million to fund for any deficits arising under any of the three legacy pension plans (HMRF, HWRF and

HSR). There is also a reserve fund with a balance of $17.2 million to fund or deficits in excess of the budgeted amount. Winding up the HMRF and HWRF plans would eliminate any future deficit payments that may arise under these two plans. However, the HSR plan has a $104.5 million deficit on a wind-up basis as at its last valuation. Given that the HSR plan would be the only plan that may continue to experience deficit funding payments, there may be an opportunity to reduce the budgeted amount.

Staffing: None

Legal: None

HISTORICAL BACKGROUND

Both the HMRF and HWRF plans are closed plans as of July 1, 1965. They currently consist only of retired members, survivors and beneficiaries receiving monthly pensions. The HMRF plan consists mainly of former Fire personnel while the HWRF plan consist mainly of former Police personnel. As at December 31, 2022, there were 136 HMRF members and 116 HWRF members receiving monthly pensions.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

If the City decides to wind up the pension plans, then some of the requirements under legislation include:

- Choosing a wind-up date in the future.
- Notifying the members, unions, advisory committees and the regulator of the intent to wind up.
- Amending the plans to reflect the wind up.
- Preparing and filing a wind-up valuation report with the regulator, which includes how a surplus or deficit will be dealt with.

RELEVANT CONSULTATION

Preliminary discussions have included the City's Investment Section as well as the plan actuaries from AON and Towers Watson Canada.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The HMRF plan has been well funded. However, the HWRF plan has experienced deficits since 1985 and it has only been since the 2019 valuation, filed in 2020, where the plan did not experience a deficit. During the period 1985 to 2020 the City contributed in excess of $60 million to fund these deficits.

A plan is considered fully funded when the status of the plan on a wind-up basis reaches 100%. This means that the plan has enough assets at the valuation date to meet all benefit obligations including post retirement indexing. Both plans have seen improvements in their wind-up funded status. As of the most current valuation the HMRF fund is 121.5% funded and has a surplus of $12.9 million and the HWRF is almost fully funded at 98.1% with a slight deficit of $1.1 million. Table 1 below shows how the plan's funded status, per the actuarial valuations, has improved over the years.

TABLE 1

	HMRF		HWRF	
Year	**Funded ratio**	**Surplus/(Deficit)**	**Funded ratio**	**Surplus/(Deficit)**
2010	*	*	67.90%	$(30,625,000)
2011	74.04%	$(27,477,500)	*	*
2013	*	*	67.20%	$(29,769,000)
2014	84.99%	$(14,614,000)	*	*
2016	*	*	74.40%	$(20,511,000)
2017	97.15%	$(2,380,700)	*	*
2019	98.10%	$(1,524,634)	85.30%	$(9,490,000)
2021	121.50%	$12,881,044	98.10%	$(1,068,000)

*an actuarial valuation was not required

The funded status of the plan provides an opportunity for the City to purchase annuities from an insurance company to provide the same benefits to the plan members as would have been provided under their existing plan. This would relieve the City of any future obligations including the administrative efforts of maintaining the plans, the investment risk and volatility of markets and the risk of any future deficit obligations. After annuities are purchased, the liability associated with paying the pension benefits rests with the insurer.

When a decision is made to wind up the plan, a wind-up date must be chosen, and that date must be a future date. Given that we cannot predict future market conditions there is a risk that the market could become unfavourable between the decision date and the actual wind up date, which may result in unexpected deficit that would need to be funded at the wind-up date.

To mitigate this the City could consider several strategies:

Assets (Investments)
Since the investments are managed under a Master Trust which includes the assets of the HSR plan, the City could segregate the HMRF/HWRF assets from the HSR assets to protect from any investment losses experienced in the HSR assets. In addition, they could de-risk the investment portfolio of the segregated fund and rely more heavily on bonds or alternatives over equity funds.

Liabilities (Benefit Obligations)
Gains could be realized by performing a mortality study. The mortality assumption used on a wind-up basis is the required industry standard which is more conservative than the actual mortality experienced by the plan. Performing a mortality study to prove that the plans' mortality is greater than the standard assumption would provide more favourable pricing from an insurer.

Another method to realize gains would be to perform a survivor audit. This audit involves contacting all retirees to determine the status of their spouse. If the spouse has pre-deceased, the member then the liability that is being held for survivor benefits may no longer be required.

There are several advantages to winding up the plan. Most importantly it would eliminate the risk of the plans' financial position deteriorating and requiring funding payments from the City's operating budget. It would also relieve the City of the ongoing administrative efforts associated with these two plans such as the preparation of:

- Annual Financial Statements and the auditing of the statements
- Annual Information Return (AIR)
- Annual Investment Information Summary (IIS)
- Actuarial Valuation Reports at least every 3 years
- Biennial member statements
- Remitting withholding taxes to Canada Revenue Agency
- Annual T4Aas
- Monthly payments and deposits to pensioners
- Ongoing correspondence to members regarding annual indexing, benefit entitlements at death, marriage breakdown etc.

However, these administrative functions would continue for the HSR pension plan.

ALTERNATIVES FOR CONSIDERATION

None.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

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

Our People and Performance
Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

N/A