Hamilton

INFORMATION REPORT

TO:	Chair and Members HMRF/HWRF Pension Administration Committee
COMMITTEE DATE:	March 30, 2023
SUBJECT/REPORT NO:	Hamilton Wentworth Retirement Fund (HWRF) Valuation at December 31, 2021 (FCS23005) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY: **SIGNATURE:**	Shelley Hesmer Acting Director, Financial Services, Taxation and Corporate Controller Corporate Services Department Shelley Hesmer

COUNCIL DIRECTION

That Appendix "A" to Report FCS23005 "Hamilton Wentworth Retirement Fund (HWRF) Valuation at December 31, 2021", be received.

INFORMATION

The December 31, 2021 valuation attached as Appendix "A" to Report FCS23005, showed continued improvements since the last valuation. The funded status on a going concern basis is a $6.4 million surplus compared to the previous surplus of $2.0 million. This surplus is inclusive of the cost of future indexing and a provision for adverse deviation. Despite this $8.3 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 $9.1 million compared to a $3.8 million surplus at December 31, 2019. On a windup basis the plan has a $1.1 million deficit compared to the previous $9.5 million deficit.

Since the solvency ratio is currently 1.21 (1.08 – 2019) there are no solvency concerns and consequently no funding is required.

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, 2021, compared to the December 31, 2019 valuation:

	($ in millions)	
	2021	**2019**
Going Concern Basis		
Valuation Assets	$54.4	$54.8
Less: Accrued Liabilities	$44.2	$48.5
Actuarial Surplus/(Deficit) before PfAD	$10.2	$ 6.3
Less: Provision for Adverse Deviation (PfAD)	$ 3.5	$ 4.3
Less: Prior Year Credit Balances	$ 0.3	$ 0.0
Actuarial Surplus/(Deficit)	$ 6.4	$ 2.0
Solvency Basis		
Solvency Assets[1]	$54.4	$54.8
Less: Solvency Liabilities	$45.0	$50.9
Less: Prior Year Credit Balance	$ 0.3	$ 0.0
Solvency Surplus/(Deficit)	$ 9.1	$ 3.8
Solvency Ratio	1.21	1.08
Windup Basis		
Market Value of Assets[1]	$54.4	$54.8
Less: Windup Liabilities	$55.5	$64.2
Windup Surplus/(Deficit)	$ (1.1)	$ (9.5)
Transfer Ratio	0.98	0.85
# of members	124	140

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

The going concern valuation increased by $4.4 million and most of the increase is attributed to investment gains. Since the plan is in a surplus on both a going concern and solvency basis and the solvency ratio is greater than 0.85, then there are no funding issues and therefore no special payments are required during the three-year valuation period.

The last valuation filed was as at December 31, 2019, and a new valuation is required no later than every three years and within nine months of the valuation date. However due to the volatility and decline in global markets in early 2022, it was determined that it would be prudent to file an off-cycle valuation at December 31, 2021. This valuation was filed with the legislated authorities by the September 30, 2022 deadline.

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 in 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.

This valuation is the second 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.

Overall, the HWRF plan is in a healthy financial state and as a result the next valuation is not required until December 31, 2024.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS23005 – HWRF Actuarial Valuation at December 31, 2021.

BH/dw