SUBJECT: Hamilton Street Railway Plan (1994) Actuarial Valuation as at January 1, 2009 (FCS09113) (City Wide)

RECOMMENDATION:

a) That the January 1, 2009, actuarial valuation for the Hamilton Street Railway Plan (1994) per Appendix ‘A’ to report FCS09113 be received for information;

b) That the Treasurer be authorized to file the January 1, 2009, actuarial valuation with the Financial Services Commission of Ontario (FSCO) and Canada Revenue Agency (CRA);

c) That the method for valuing assets, on a solvency basis, be changed from market value of assets to the smoothing of asset technique for deficit funding purposes; and

d) That the current budgeted amount of $3.87 million be maintained and used to fund both the Hamilton Wentworth Retirement Fund (HWRF) and the Hamilton Street Railway (HSR) special payments for the years 2009 to 2011 with any shortfall funded from the Hamilton Wentworth Retirement Fund (HWRF) Actuarial Deficiency Provision (112065).

Antonio D. Tollis
Treasurer
Corporate Services Department

EXECUTIVE SUMMARY:
The January 1, 2009, Valuation (attached as Appendix ‘A’ to report FCS09113) indicates that the position of the plan, on a going concern basis, has changed from a $30.3 million surplus (2006) to a $2.72 million deficit. The change is attributed to both the 2008 loss in the market value of assets and the plan enhancements resulting from the ATU civil action suit. The deficit position as at January 1, 2009, will require a minimum special payment of $273,600 for 2009 and increasingly larger payments over the next several years. The 2009 minimum special payment is provided for in the 2009 current budget. Deficit payments over the next few years can be provided for first from the current budget with the shortfall provided from the HWRF pension reserve 110025, as per Appendix ‘B’ to report FCS09113.

BACKGROUND:

As a result of a court ordered settlement approved on December 22, 2008, between the ATU 107 and the City, all members of the HSR plan were enrolled in the OMERS plan effective January 1, 2009, with future service accruing in the OMERS plan and past service remaining in the HSR plan. All new employees hired on or after January 1, 2009, became members of the OMERS plan. As a result, the HSR plan has become a closed plan. In addition, the settlement provided the following enhancements to the HSR plan:

1. 100% indexing equivalent to that provided by OMERS; and
2. an additional six months of credited service for all qualifying members.

There is also a further provision whereby spousal benefits would be enhanced to 66-2/3% when an actuarial filing does not produce a deficit on either a going concern or solvency basis.

Under Provincial legislation, the administrator is required to file an actuarial valuation every three years and within nine months of the valuation date. The last actuarial valuation filed was valued at January 1, 2006. Therefore the January 1, 2009, valuation was required by September 30, 2009. However, an extension to December 31, 2009, was granted by FSCO, due to the delay caused by both staff time and actuarial time spent on the implementation of the ATU class action suit.

Although normally a valuation is required every three years, an annual valuation is required when the ratio of solvency assets to the solvency liabilities is less than 0.90 and the solvency liabilities exceed the solvency assets by more than $5 million. Since, the solvency ratio at January 1, 2009, was 0.831, and the difference between the assets and liabilities was in excess of $5 million, a valuation will be required at January 1, 2010.
ANALYSIS/RATIONALE:

The following Chart provides a synopsis of the plan position and membership as of January 1, 2009, as compared to January 1, 2006:

<table>
<thead>
<tr>
<th></th>
<th>2009 (unsmoothed with 100% indexing) Column A</th>
<th>2009 (smoothed with 40% indexing) Column B</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Going Concern Basis</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation Assets</td>
<td>$169.6</td>
<td>$169.6</td>
<td>$171.1</td>
</tr>
<tr>
<td>Accrued Liabilities</td>
<td>$198.3</td>
<td>$172.3</td>
<td>$140.8</td>
</tr>
<tr>
<td>Actuarial Surplus(Deficit)</td>
<td>($ 28.7)</td>
<td>($ 2.7)</td>
<td>$ 30.3</td>
</tr>
<tr>
<td><strong>Solvency Basis</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solvency Assets</td>
<td>$160.5</td>
<td>$170.6</td>
<td>$175.3</td>
</tr>
<tr>
<td>Solvency Liabilities</td>
<td>$177.0</td>
<td>$169.8</td>
<td>$155.2</td>
</tr>
<tr>
<td>Solvency Surplus(Deficit)</td>
<td>($ 16.5)</td>
<td>$ 0.8</td>
<td>$ 20.1</td>
</tr>
<tr>
<td><strong>Windup Basis</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Value of Assets</td>
<td>$147.3</td>
<td>$147.3</td>
<td>$175.3</td>
</tr>
<tr>
<td>Windup Liabilities</td>
<td>$212.5</td>
<td>$212.5</td>
<td>$159.7</td>
</tr>
<tr>
<td>Windup Surplus(Deficit)</td>
<td>($ 65.2)</td>
<td>($ 65.2)</td>
<td>$ 15.6</td>
</tr>
<tr>
<td><strong>Required Special Payment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Going Concern deficit payment</td>
<td>$2.9</td>
<td>$0.27</td>
<td>$0</td>
</tr>
<tr>
<td>Solvency Deficit payment</td>
<td>$3.6</td>
<td>$0.00</td>
<td>$0</td>
</tr>
<tr>
<td>Total Special Payment</td>
<td>$6.5</td>
<td>$0.27</td>
<td>$0</td>
</tr>
<tr>
<td># of active members</td>
<td>573</td>
<td>573</td>
<td>550</td>
</tr>
<tr>
<td># of retired or deferred</td>
<td>532</td>
<td>532</td>
<td>490</td>
</tr>
</tbody>
</table>

Since the last valuation, the main reason for the change from a surplus to a deficit position is due to the 2008 market losses and the enhancement to indexation resulting from the settlement. The settlement provided a 100% indexing provision equivalent to that provided by OMERS at a cost of approximately $40 million. Recognizing 100% of the indexation costs in the current valuation would produce a going concern deficit of $28.6 million and a solvency deficit of $16.5 million and result in required total special payments for 2009 of $6.5 million as per Column A of the above Chart.

To mitigate the impact to the current budget, it is recommended that the City adopt two changes with the filing of the 2009 valuation. First, the Pension Benefit Act allows the Plan to use the smoothing of asset technique for solvency funding purposes rather than the market value of assets, which would eliminate the solvency special payment of $3.6 million for 2009. This change in the valuation method would cause a slower increase in solvency special payment contributions when markets drop but it will also cause a
slower decrease in special payment contributions when markets rise. Such a change would be a long-term commitment since FSCO discourages changes in valuation methods to minimize funding contributions. Second, under pension legislation, the value of indexation may be excluded from the going concern and solvency valuation. Partial recognition is also permissible under pension legislation. By excluding 60% of the cost of future indexing, the 2009 special payment for the going concern deficit would decrease from $2.9 million to $273,600 and payments over the period 2010 to 2013 would be more affordable. The effect of both smoothing assets on a solvency basis and excluding 60% of the indexing would result in a 2009 total special payment of $273,600 as shown in Column B of the Chart on page 3. Reducing the required minimum special payments does not preclude the City from increasing its funding and thus will provide more flexibility.

**ALTERNATIVES FOR CONSIDERATION:**

None. The filing of this valuation is a legislated requirement.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Financial Implications**

The deficit position as at January 1, 2009, will require a minimum special payment of $273,600 for 2009 and increasingly larger payments over the next several years as more of the 2008 losses are recognized. The current budget includes a $3.87 million provision for the HWRF special payments. However, the 2009 minimum special payment for HWRF is less than budgeted and the excess can be used to fund the 2009 minimum special payment for the HSR pension plan. In addition there is a $4.9 million reserve (HWRF Actuarial Deficiency Provision (112065)), which can be used to fund the shortfall between the budgeted amount of $3.87 million and the combined required special payments for both the HWRF and HSR special payments for the period 2010 to 2012. The use of the reserve fund will allow additional time for expected future market recoveries to reduce the special payments in the future. Conversely, unexpected future market deteriorations would increase the special payments and deplete the reserve sooner. Based on the current valuation and assuming a return of 6% for the years 2009 to 2013, the HSR special payments can be provided for from the current budget with any shortfall provided from the reserve until 2012, as per Appendix ‘B’ to report FCS09113.

The special payments included in Appendix ‘B’ to report FCS09113 are based on the most current valuations and therefore will change with each new valuation. It is expected that the funded position of the HSR plan will require an annual filing. In addition, the HWRF pension plan will require a valuation at December 31, 2010, which will include the impact of the 2008 market losses. However, the results of 2010 valuations will not be known until after the 2011 budget submission. Therefore, it is recommended that the current budgeted amount of $3.87 million be maintained and
used to fund both the HWRF and HSR special payments for the years 2009 to 2011 with any shortfall funded from the HWRF pension reserve. The budgeted funding level of $3.87 million will be re-evaluated once the results of 2010 valuations are completed.

**Legal Implications**

None.

**Staffing Implications**

None.

**POLICIES AFFECTING PROPOSAL:**

None.

**RELEVANT CONSULTATION:**

Actuaries from the firm Aon Consulting prepared the January 1, 2009, Actuarial Valuation.

**CITY STRATEGIC COMMITMENT:**

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

- **Community Well-Being is enhanced.** ☑ Yes ☐ No
  
  There are no community well-being issues affected by the recommendation

- **Environmental Well-Being is enhanced.**  ☐ Yes ☑ No
  
  There are no environmental issues affected by the recommendation

- **Economic Well-Being is enhanced.**  ☑ Yes ☐ No
  
  The City files actuarial valuations tri-annually, or sooner, as required by legislation so that regulatory bodies can be assured that the assets of the fund are sufficient to meet the future pension payments of members.

**Does the option you are recommending create value across all three bottom lines?**

☑ Yes ☐ No

The recommendation creates value on Economic Well being only, as the other two categories have no relevance to the recommendation.

**Do the options you are recommending make Hamilton a City of choice for high performance public servants?**

☐ Yes ☑ No

Providing employees with a pension plan, and ensuring that it is adequately funded aligns with this goal.