To: Chair and Members
Audit and Administration Committee

From: Antonio D. Tollis
Treasurer
Corporate Services Department

Telephone: (905) 546-2424 x 4549
Facsimile: (905) 546-2584
E-mail: tony.tollis@hamilton.ca

Date: October 6, 2010
Re: Hamilton Municipal Retirement Fund (HMRF) and Hamilton-Wentworth Retirement Fund (HWRF) – Survivor Benefit Re-Election (FCS09096(b) (City Wide)

Council Direction:
Staff was requested to determine the cost associated with providing all HMRF and HWRF pensioners currently under payment, who have a survivor benefit of less than 66-2/3%, to re-elect a spousal pension enhancement to 66-2/3%; where the pensioner would be responsible for 50% of the cost to upgrade to 60%\(^1\), and report back to the next HMRF/HWRF Pension Administration Sub-Committee.

Information:
At the September 29th, 2009, HMRF/HWRF Pension Administration Sub-Committee meeting, staff reported on the cost of upgrading all pensioners with a survivor pension to 66-2/3% at no cost to the member. The estimated cost to upgrade 29 HMRF members who currently have less than 66-2/3% was reported as $514,000, while the cost to upgrade 31 HWRF members was $507,600.

However, staff had concerns that enhancing these pensions, at no cost to the member, would be an inequity to those members who had elected survivor benefits and paid for their election through a reduced monthly pension, as well as, to those who had previously re-elected a survivor benefit and paid 50% of the cost through their future monthly pensions. In addition, these members had prior “one-time” opportunities to re-elect survivor benefit upgrades to 60%\(^1\) and chose not to elect.

As a result, staff was requested to re-cost the upgrade based on previous re-election offerings, whereby the pensioner would be responsible for 50% of the cost to upgrade to 60% and those who elected the upgrade would be further enhanced to 66-2/3% at no cost.
To determine this cost, the original pension amount was re-calculated at the original retirement date based on the reduction factors of the re-elected survivor benefit option. Fifty percent of the resulting overpayment that occurred from the retirement date to July 1, 2009, (or date of death for spousal pensions) was then offset against the pensioner’s future monthly pension. In the case of spousal pensions, fifty percent of the underpayment from date of death to July 1, 2009, was offset against the spouse’s future monthly pension.

Towers Watson was the actuarial firm for both plans when the prior re-election costings were prepared and is the current actuary for the HMRF plan, while AON is the current actuary for the HWRF plan. To ensure consistency between the prior costings and the current costings prepared by the separate firms, Towers Watson was asked to provide details of their methodology to AON. Below is a summary of the costings for the two plans:

<table>
<thead>
<tr>
<th></th>
<th>HMRF</th>
<th>HWRF</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pensioners</strong></td>
<td>22</td>
<td>19</td>
<td>41</td>
</tr>
<tr>
<td><strong>Savings</strong></td>
<td>$(427,300)</td>
<td>$(283,800)</td>
<td>$(711,100)</td>
</tr>
<tr>
<td><strong>Spousal Pensioners</strong></td>
<td>7</td>
<td>12</td>
<td>19</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>$76,000</td>
<td>$347,300</td>
<td>$423,300</td>
</tr>
</tbody>
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All pensioners would receive a reduced monthly pension if they choose to re-elect. Those who chose no survivor benefits at retirement and/or have been in receipt of a pension for a greater number of years will have substantial reductions. As a result of the reduction to future pension payments, there would actually be a savings of $711,100 to the funds if all the pensioners choose to re-elect. However, since all of these pensioners would receive reduced monthly pensions, with some receiving substantially reduced pensions and since they had previously been offered a re-election and declined, it is unlikely that any would choose to upgrade and therefore no savings would be realized.

On the other hand, all spousal pensioners would receive an increase to their monthly pension since the underpayment from date of death to July 1, 2009, is greater than the overpayment from date of retirement to date of death. Therefore, there would be no reason for any of the spousal pensioners to decline the offer. Consequently, the cost to upgrade the 7 HMRF spousal pensioners would be $76,000 while the cost to upgrade the 12 HWRF spousal pensioners would be $347,300. Although, there are more spousal pensioners in the HWRF plan, the significant cost difference is mainly due to the fact that the HWRF spousal pensioners have been in receipt of their 50% spousal pensions longer; and, consequently their underpayment is much greater than those in the HMRF plan.
Spousal re-election offers tend to have an anti-selection bias which tends to increase the overall cost of the offer. Since spousal pensioners would benefit from this re-election and most pensioners would likely not re-elect a spousal benefit upgrade, then it is realistic to assume that the estimated cost of this upgrade will be a total of $423,300.

Other factors that the committee should consider in making their decision:

a) there have been several “one-time” opportunities to re-elect spousal upgrades and most of these individuals either declined or did not respond to previous offerings; and

b) spousal pensioners re-electing this offer who are currently in receipt of a tax free Guaranteed Income Supplement from the government will either lose their supplement or have it reduced. Consequently, in many cases much of the increase would fund the government program rather than the spouse.

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