SUBJECT: Hamilton Municipal Retirement Fund (HMRF) 2006 Pension Indexation - (FCS05125) (City Wide)

RECOMMENDATION:

a) That HMRF members be granted a 3.36% increase effective January 1, 2006 to match the inflationary increase granted to OMERS pensioners.

b) That the cost of $2,862,000 to provide the pension increase of 3.36% to HMRF members be funded from plan surplus.

EXECUTIVE SUMMARY:

A provision in the collective agreement for the Hamilton Professional Fire-fighters’ Association (HPFA) provides for the same level of indexation for HMRF pensioners, that is granted to OMERS pensioners. The OMERS plan provides for indexing whereas indexing for HMRF Fire members is contractual and granted on an ad hoc basis. As per the last valuation of December 31, 2002, the HMRF plan has an actuarial surplus of approximately $13.2 million. Also included in the December 31, 2002 valuation was a provision for future indexation for $21.7 million which results in an actual surplus of assets over liabilities of $34.9 million. Therefore the plan can adequately fund a 3.36% increase for the HMRF pensioners.
BACKGROUND:

Effective, January 1, 1999, OMERS enhanced its pension indexation to provide a guaranteed 100% cost of living increase with any increase in excess of 6% carried forward to future years.

Effective January 1, 1990, Article 11.1 of the Hamilton Professional Firefighters’ Association’s (HPFA) collective agreement provides all retired HMRF members with the same cost of living as those granted to members of the OMERS plan. Although there is only a contractual obligation to provide indexation to firefighters, it has been past practice to extend any increase to all retirees in receipt of a pension from the HMRF Plan including non-Fire pensioners. In keeping with this practice the HMRF plan has been matching the 100% cost of living increases as provided to OMERS retirees.

ANALYSIS/RATIONALE:

As of the December 31, 2002 actuarial valuation the plan had a surplus of $34.9 million which included a provision for future indexation of $21.7 million, resulting in a $13.2 million surplus.

Based on the increase in CPI for the annual periods of September over September, the OMERS retirees’ pension indexation for 2006 is 3.36%. The total cost to the Hamilton-Municipal Retirement Fund (HMRF) to match the 2006 pension increase granted by OMERS is estimated to be $2,862,000 and can be funded from plan surplus.

ALTERNATIVES FOR CONSIDERATION:

The City is not contractually bound to provide indexation to non-fire members. Although not contractually obligated, Council has consistently granted the inflation increases to all HMRF members since first introduced. As an alternative, Council could discontinue the practice of granting the inflation increases to non-fire retirees, and in fact this option has been presented to Council every year. However, Council has elected not to exercise this option since the majority of the indexation cost is associated with fire pensioners and they have felt that it was fair and equitable that all pension plan members receive the same inflation increases.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial

There is no financial impact to the City budget. The additional $2,862,000 will be funded from plan surplus.
Legal

There is a contractual obligation to provide fire members of the HWRF plan with annual indexation.

Staffing

None

POLICIES AFFECTING PROPOSAL:

Although the plan does not recognize formal indexation, Article 11.1 of the HPFA collective agreement does provide its HMRF members with the same indexation as that provided to OMERS retirees. Indexation is included in the OMERS plan and thus provided to HMRF members.

RELEVANT CONSULTATION:

Watson Wyatt, the fund’s Actuary, provided the costings contained within this report. The indexation level was based on that granted by OMERS effective January 1, 2006.

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.

Evaluate the implications of your recommendations by indicating and completing the sections below. Consider both short-term and long-term implications.

Community Well-Being is enhanced. ☑ Yes ☐ No

Pension indexation ensures that retirees’ income is maintained at a level that allows them to affordably live within their community.

Environmental Well-Being is enhanced. ☐ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes ☐ No

Indexation tied to the Consumer Price Index ensures that pensioners can maintain their spending power.

Does the option you are recommending create value across all three bottom lines? ☐ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes ☐ No

Providing indexation to all HMRF members ensures that all retirees in the plan are treated equitably and enjoy the same standard of living as their OMERS counterparts.