SUBJECT: Hamilton-Wentworth Retirement Fund (HWRF) 2006 Pension Indexation - (FCS05126) (City Wide)

RECOMMENDATION:

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

b) That the cost of $2,900,400 to provide the 2006 indexation for members be amortized over 5 years at an annual rate of $666,000 as per Appendix ‘A’ to Report FCS05126.

c) That subject to an overall corporate surplus, the 2005 transfer from the HWRF Actuarial Deficiency Reserve to the operating budget be deferred and applied to the 2006 HWRF payment.

EXECUTIVE SUMMARY:

A provision in the collective agreement for the Hamilton Wentworth Police Association (HWPA) provides for the same level of indexation for HWRF pensioners that is granted to OMERS pensioners. The OMERS plan provides for indexing whereas indexing for HWRF police members are contractual and granted on an ad hoc basis. This means that the HWRF actuarial deficit does not include the cost of future indexation. As of the December 31, 2004 valuation the plan had a $10.6 million deficit (2003 – $9.2 million)
on a going concern basis and a solvency deficit of $23.5 million (2003 - $22.5 million). The solvency deficit reflects the status of the plan as if it were wound up at December 31st, 2004. Due to the solvency deficit position, the Pension Benefit Act requires that additional deficits be funded over 5 years rather than the normal 15 years. As a result the $2,900,400 for the 2006 pension indexation must be funded by annual payments of $666,000 for the next 5 years. This will increase the annual deficit payments to $5,014,848. In addition, a further increase of $700,000 is expected once the December 31, 2005 valuation is completed, due decreasing interest rates. Therefore, it is expected that the annual deficit payments for 2006 will be approximately $5.7 million of which $360,000 can be funded from the remaining balance in the HWRF Actuarial Deficiency Reserve, requiring that $5.34 million (2005 - $4.187 million) be met from the 2006 current budget.

**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, 1988, collective agreement Article 14(13) for active police personnel and Article 8(12) for civilian personnel provides retired HWRF police 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 police members, it has been past practice to extend any increase to all retirees in receipt of a pension from the HWRF Plan which includes non-Police pensioners. In keeping with this practice the HWRF plan has been matching the 100% cost of living increases as provided to OMERS retirees.

**ANALYSIS/RATIONALE:**

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-Wentworth Retirement Fund (HWRF) to match the 2006 pension increase granted by OMERS is estimated to be $2,900,400. The fund’s financial status requires that this cost be amortization over a period of 5 years from the effective date. To amortize this cost over five years requires an annual payment of $660,000 which increases the total annual required deficit payments to $5,014,848, as per Appendix A.

However, the five-year average interest rate that is used to value the liabilities in the plan are expected to decrease further by December 31, 2005. As a result, it is expected that an additional deficit payment of $700,000 will be required once the December 31, 2005 valuation is completed. Therefore the 2006 annual deficit payment is expected to be approximately $5.7 million.
The 2005 budgeted amount of $4.187 million was net of a $360,000 transfer from the HWRF Actuarial Deficiency Reserve. Since a corporate surplus is projected for 2005, it is recommended that the budgeted 2005 transfer from the HWRF Actuarial Deficiency Reserve to operating be deferred and budgeted in 2006.

Therefore, the amount that must be met from the 2006 current budget will be $5.34 million which is equivalent to the 2006 expected annual deficit payment of $5.7 million less the reserve transfer of $360,000.

**ALTERNATIVES FOR CONSIDERATION:**

There is no contractual obligation to provide indexation to non-police members. Although not contractually obligated, Council has consistently granted the inflation increases to all HWRF members since first introduced. As an alternative, Council could discontinue the practice of granting the inflation increases to non-police 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 police 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**

The cost to provide the 2006 indexation of 3.36% will increase in the required annual deficit payments in 2006 to $5,014,848, which can be funded by the amount incorporated into the draft 2006 current budget.

**Legal**

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

**Staffing**

None

**POLICIES AFFECTING PROPOSAL:**

Although the plan does not recognize formal indexation, Articles 14(13) for active police personnel and Article 8(12) for civilian personnel provide its HWRF members with the same indexation as that provided to OMERS retirees. Indexation is included in the OMERS plan and thus provided to HWRF members.
Watson Wyatt, the funds Actuary, provided the costings contained within this report. The indexation level was based on that granted by OMERS effective January 1, 2006.

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 HWRF members ensures that all retirees in the plan are treated equitably and enjoy the same standard of living as their OMERS counterparts.
## Schedule of Amortization Payments

**HWRF Pension Plan**

at January 1, 2006

<table>
<thead>
<tr>
<th>Description</th>
<th>Finance Report</th>
<th>Monthly Payment</th>
<th>Annual Payment</th>
<th>Date of last payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survivor Benefit Re-Election option</td>
<td>91.156</td>
<td>$7,572</td>
<td>$90,864</td>
<td>Dec-2007</td>
</tr>
<tr>
<td>December 31, 1992 unfunded liability</td>
<td>93.132</td>
<td>$4,400</td>
<td>$52,800</td>
<td>Dec-2007</td>
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<tr>
<td>1996 indecation</td>
<td>95.142</td>
<td>$15,800</td>
<td>$189,600</td>
<td>Dec-2010</td>
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<tr>
<td>Dec 31 1994 unfunded liability</td>
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<td>$14,352</td>
<td>$172,224</td>
<td>Dec-2008</td>
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<tr>
<td>1997 Indexation</td>
<td>96.095</td>
<td>$10,620</td>
<td>$127,440</td>
<td>Dec-2011</td>
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<tr>
<td>Options Factor Revision</td>
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<td>$1,856</td>
<td>$22,272</td>
<td>Dec-2011</td>
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<tr>
<td>1998 Indexation</td>
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<td>$11,800</td>
<td>$141,600</td>
<td>Dec-2012</td>
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<td>December 31, 1999 unfunded liability</td>
<td>FIN000118</td>
<td>$16,807</td>
<td>$201,684</td>
<td>Dec-2014</td>
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<tr>
<td>Dec 31 2002 going concern deficit</td>
<td>FCS03128</td>
<td>$17,479</td>
<td>$209,748</td>
<td>Dec-2017</td>
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<td>Dec 31 2003 going concern deficit</td>
<td>FCS04108</td>
<td>$13,916</td>
<td>$166,992</td>
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<td>Dec 31 2004 going concern deficit</td>
<td>FCS05074</td>
<td>$19,327</td>
<td>$231,924</td>
<td>Dec-2019 2</td>
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</table>

**Deficit Payments required for Going Concern purposes**

$ 133,929 $ 1,607,148

<table>
<thead>
<tr>
<th>Description</th>
<th>Finance Report</th>
<th>Monthly Payment</th>
<th>Annual Payment</th>
<th>Date of last payment</th>
</tr>
</thead>
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<td>2002 indexation</td>
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<td>$41,417</td>
<td>$497,004</td>
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<td>2003 Indexation</td>
<td>FSC03045</td>
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<td>Dec 31 2002 solvency deficit</td>
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<td>Dec 31 2004 solvency deficit</td>
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<td>$61,894</td>
<td>$742,728</td>
<td>Dec-2009</td>
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<td>2006 indexation</td>
<td>FCS05126</td>
<td>$55,500</td>
<td>$666,000</td>
<td>Dec-2010</td>
</tr>
</tbody>
</table>

**Deficit Payments required for solvency purposes**

$ 283,975 $ 3,407,700

**Total Deficit Payments required commencing January 1, 2006**

$ 417,904 $ 5,014,848

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1.  2004 indexation per FSC04108 incorporated into the going concern deficit of Dec 31/03
2.  2005 indexation per FSC05074 incorporated into the going concern deficit of Dec 31/04