

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE:** May 28, 2014

**SUBJECT:** TTC Pension Fund Society Bylaw Amendments

## **ACTION ITEM**

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### **RECOMMENDATION**

It is recommended that the TTC Board approve the TTC Pension Fund Society (PFS) Bylaw amendments included in this report.

### **FUNDING**

There is no financial impact to the Toronto Transit Commission's 2014 and 2015 Operating and Capital budgets.

The amendments do not change the existing PFS contribution rate of 9.25% up to the Yearly Maximum Pensionable Earnings (YMPE) and 10.85% above YMPE. Contributions under the existing rates are sufficient to meet the going concern funding requirements as defined under the Ontario Pension Benefits Act and the Canadian Income Tax Act. A compliant actuarial valuation as at January 1, 2014, will be filed with Regulators as confirmed by the plan actuary, Mercer (Canada) Limited.

### **BACKGROUND**

The PFS was established on January 3, 1940. Effective January 1, 2011, pursuant to the May 27, 2011 Memorandum of Agreement between the Toronto Transit Commission and the Amalgamated Transit Union (ATU), Local 113 (the "Sponsors' Agreement"), the PFS was established as a Jointly Sponsored Pension Plan (JSPP), as defined by the Ontario Pension Benefits Act. Other Ontario JSPPs include: Ontario Teachers' Pension Plan, OMERS, Healthcare of Ontario Pension Plan, Ontario Public Service Employees' Union Pension Plan (OPTrust) and Colleges of Applied Arts and Technology Pension Plan. As at December 31, 2013, the PFS had approximately 13,000 active members and 7,100 pensioners and net assets of \$4.9 billion. The PFS plan design supports equal risk sharing between employees and employers. Unlike typical final average earnings defined benefit plans, the PFS plan does not provide automatic annual updates to the best four-year base period used in determining pension benefits, and does not guarantee automatic increases to pensions in payment. Instead, benefit changes are approved only when, and to the degree that, they are deemed actuarially affordable. This model has allowed the plan administrator to contain costs during unfavourable market conditions by foregoing base period updates and indexing.

The PFS is administered by the PFS Board of Directors, having an equal number of representatives appointed by the TTC and the ATU. Pursuant to Articles 2.6 and 2.7 of the Sponsors' Agreement the PFS Board of Directors, with respect to each actuarial valuation, shall decide whether or not to change contributions and/or benefits, provided that contributions are within the upper and lower limits (11.25%/12.85% and 9.25%/10.85%, respectively). Pursuant to Article 3.1 of the Sponsors' Agreement, the TTC and the ATU agree to facilitate the sanction of amendments that are required by the Sponsors' Agreement by the TTC and approval of the amendments by the PFS membership.

Accordingly, each year the PFS Actuary prepares an actuarial valuation and detailed analyses of the plan's funded status which is used by the PFS Board of Directors to determine affordability of base period updates and pensioner indexing. After careful consideration of long term pension benefit affordability based on current contribution rates, on May 5, 2014, the PFS Board of Directors approved a 3 year base period update (to move the base year from December 31, 2010 to December 31, 2013) and a 2% pensioner increase, which is subject to limits under the Canadian Income Tax Act. As detailed on the attached "History of Pension Improvements", this amendment brings the base period to current levels after many years of missed updates and indexing.

These plan changes are effected by the Bylaw amendments noted below, which were approved by the PFS Board of Directors on May 5, 2014. However, in accordance with PFS Bylaw 3.09 (2) any Bylaw amendments shall cease to be effective unless sanctioned by the TTC Board and approved by the Regular Members at the PFS Annual General Meeting (AGM) to be held on June 21, 2014.

Administration of these benefit changes will commence after all required approvals are received.

## **DISCUSSION**

The Bylaw amendments for approval in this report do not change the contribution rates for the TTC or the PFS members, which remain within the upper and lower limits established by the Sponsors' Agreement. These amendments are also included in the PFS AGM Newsletter for membership approval.

The following are the recommended bylaw amendments identified in track changes:

### 2 DEFINITIONS

(31) "Survivor Benefit Date" shall mean January 1, 201~~14~~<sup>14</sup>.

### 6.02 PENSIONABLE EARNINGS

#### 1) Average Base Period Earnings

Effective January 1, 201~~34~~<sup>34</sup> for Members retiring on or after January 1, 201~~34~~<sup>34</sup> pursuant to Bylaw 8 and effective May ~~85~~<sup>85</sup>, 201~~34~~<sup>34</sup>, for Members terminating on or after May ~~85~~<sup>85</sup>, 201~~34~~<sup>34</sup> for the purposes of calculating the amount of Regular Member's pension for

Credited Service accrued to December 31, 2010~~3~~, Average Base Period Earnings shall be the greater of:

- (a) *the average of the highest consecutive four calendar year's Pensionable Earnings prior to 2011~~4~~ and for this purpose two calendar years will be considered consecutive even if they include a temporary break in service; and*
- (b) *the average of the highest four calendar year's Pensionable Earnings after December 31, 1985 and prior to 2011~~4~~.*

A Member's Base Period shall mean the four years used for computing his or her Average Base Period Earnings. For a Member who does not have four calendar years of Pensionable Earnings prior to 2011~~4~~, the Member's Base Period shall be his or her total number of calendar years, including fractional years, of Pensionable Earnings prior to 2011~~4~~.

The YMPE used in the calculation of pension entitlements for the Base Period pursuant to Bylaw 9.01 and 9.04 shall be the YMPE under the Canada Pension Plan for each of the corresponding calendar years used in determining the Member's Average Base Period Earnings, or if the Member's Pensionable Earnings are less than the YMPE in a corresponding calendar year, the Member's Pensionable Earnings in that year.

#### 9.01 NORMAL OR POSTPONED RETIREMENT PENSION

- 1) A Regular Member who retires pursuant to Bylaw 8.01 or 8.02 on or after January 1, 2013~~4~~, shall receive an annual amount of pension determined as the sum of:

- (a) *1.6% of the Member's Average Base Period Earnings Below YMPE plus 2% of the Average Base Period Earnings Above YMPE,*

multiplied by

the number of calendar years in the Member's Base Period divided by the number of years of Credited Service in the Member's Base Period,

multiplied by

the years of Credited Service accrued to December 31, 2010~~3~~; plus

- (b) *1.6% of Pensionable Earnings Below the YMPE plus 2% of Pensionable Earnings above the YMPE for the period of Credited Service after December 31, 2010~~3~~; plus*
- (c) *0.4% of the Member's Average Base Period Earnings Below YMPE multiplied by the number of calendar years of Credited Service before 1987 during which the Member:*

- (i) was at least age 65 for the entire year; and
  - (ii) did not contribute any amount to the Canada pension Plan during the calendar year.
- 2) The total amount of pension payable to any Member under this Subsection shall not be less than the total amount of accrued pension payable to such Member in respect of years of service up to December 31, 201~~2~~<sup>3</sup>, determined in accordance with the Bylaws of the Society in effect as at December 31, 201~~2~~<sup>3</sup>.
- 3) Notwithstanding Bylaw 9.01(1), for each calendar year in which a Member is sick or injured and is credited with Pensionable Earnings pursuant to Bylaw 6.02 but not Contributory Earnings, the level of YMPE for purposes of Bylaw 9.01(1) shall be based on the YMPE in the year such sickness or injury was incurred or, if later, the year in which the Member's Pensionable Earnings ceased to be adjusted for general increases that are granted to all other employees in the Member's job class.
- 4) The annual pension of a Member who retires in accordance with Bylaw 8.01(2) and who:
- (a) has Credited Service and Continuous Service which are each less than 30 years, and
  - (b) has age plus Continuous Service which equal less than 80 years

shall be multiplied by the early retirement factor applicable to the Member as of his or her pension commencement date shown in the Table of Early Retirement Factors adopted by the Board, and shall be further reduced if necessary so that the total reduction is at least that required under Bylaw 9.02(2).

#### 13.02 AD HOC ADJUSTMENTS

- 1) Notwithstanding Bylaw 13.01, and subject to Bylaw 16.13 and Bylaw 13.02(2) and (3), pensions in the course of payment to Associate Members may be increased in accordance with this Bylaw 13.02. Increases approved by the Board shall be set out in Bylaw 13.02 and shall specify the effective date, the pensions to which the increase is applicable and the amount of the increase.
- 2) An increase under Bylaw 13.02(1) that applies to a pension which first becomes payable in the year prior to the effective date of the increase shall be the full increase multiplied by the ratio of the number of days for which the pension was payable to the total number of days in the corresponding calendar year.
- 3) Increases under Bylaw 13.02(1) shall be applied equally to pensions in the normal form or optional forms available to Members under Bylaw 10.
- 4) Effective January 1, 2011, pensions in the course of payment shall be increased by 2.0%. The pensions to which the increase is applicable shall be determined in the same manner as provided under Bylaw 13.01.

- 5) Effective January 1, 2012, pensions in the course of payment shall be increased by 1.0%. The pensions to which the increase is applicable shall be determined in the same manner as provided under Bylaw 13.01.
- 6) Effective January 1, 2013, pensions in the course of payment shall be increased by 2.0%. The pensions to which the increase is applicable shall be determined in the same manner as provided under Bylaw 13.01.
- 7) Effective January 1, 2014, pensions in the course of payment shall be increased by 2%. The pensions to which the increase is applicable shall be determined in the same manner as provided under Bylaw 13.01.

**JUSTIFICATION**

Pursuant to PFS Bylaw 3.09 (2), the TTC Board approval is required in order for the Bylaw amendments to be effective. Membership approval of these amendments will be requested at the AGM of the PFS to be held on Saturday, June 21, 2014.

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Attachments: History of Pension Improvements

## HISTORY OF PENSION IMPROVEMENTS

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YEAR	UPDATE TO BASE PERIOD	PENSIONER INCREASE	YMPE	CONTRIBUTIONS	CHANGE(S)
2014	Formula update – base up to 2013	2%	\$52,500	9.25%/10.85%	Survivor benefit date to 2013; contributions unchanged
2013	Formula update – base up to 2010	2%	\$51,100	9.25%/10.85%	Survivor benefit date to 2010; contributions unchanged
2012	Formula update – base up to 2008	1%	\$50,100	9.25%/10.85%	Survivor benefit date to 2008; contributions unchanged
2011	Formula update – base up to 2007	2%	\$48,300	9.25%/10.85%	Society became a JSPP; mortality assumptions updated; survivor benefit date to 2007; ad hoc pensioner increase; contributions increased 0.5%
2010	No update - 2005-2009 not included in base	0%	\$47,200	8.75%/10.35%	Contributions increased 0.5%
2009	No update – 2005-2008 not included in base	0%	\$46,300	8.25%/9.85%	Contributions unchanged
2008	No update – 2005-2007 not included in base	0%	\$44,900	8.25%/9.85%	Contributions increased 1%; formula used to calculate indexing changed, threshold raised from 4.75% to 5.75%
2007	Formula update – 2003 & 2004 included in base	1.10%	\$43,700	7.25%/8.85%	Contributions increased 0.5%; survivor benefit date extended to January 1, 2005
2006	Formula update – base up to 2002; 2003-2005 not included	1.20%	\$42,100	6.75%/8.35%	Contributions increased 0.5%
2005	No update – 2002-2004 not included in base	0%	\$41,100	6.25%/7.85%	Contribution increases negotiated for 2006, 2007 and 2008
2004	No update – 2002 and 2003 not included in base	0%	\$40,500	6.25%/7.85%	

## HISTORY OF PENSION IMPROVEMENTS

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2003	No update – 2002 not included	1.70%	\$39,900	6.25%/7.85%	Formula used to calculate indexing reduced
<b>YEAR</b>	<b>UPDATE TO BASE PERIOD</b>	<b>PENSIONER INCREASE</b>	<b>YMPE</b>	<b>CONTRIBUTIONS</b>	<b>CHANGE(S)</b>
2002	Formula update – base up to 2001	2.60%	\$39,100	6.25%/7.85%	Update was pre-approved in 1999
2001	Formula update – base up to 2000	2.70%	\$38,300	6.25%/7.85%	Update was pre-approved in 1999; survivor benefit date extended to January 1, 2003
2000	Formula update – base up to 1999	1.70%	\$37,600	6.25%/7.85%	Update was pre-approved in 1999; 10 yr. guarantee became automatic; 60% survivorship free for pension earned to December 31, 2001
1999	Formula update – base up to 1998	0.90%	\$37,400	6.25%/7.85%	1996 negotiated 29 & Out provision starts January 1 <sup>st</sup> and automatic 60% survivorships; July 29, 1999 three 1 year updates pre-approved for 2000, 2001 and 2002
1998	Formula update – base up to 1997	1.60%	\$36,900	6.25%/7.85%	Death benefits for Members killed on duty are improved
1997	Formula update – base up to 1996	1.60%	\$35,800	6.25%/7.85%	Actuarial reductions improved and minimum bridge benefit added
1996	No update – 1995 not included	2.10%	\$35,400	6.25%/7.85%	
1995	No update – 1994 not included	0.20%	\$34,900	6.25%/7.85%	Best four years do not have to be consecutive