



STAFF REPORT ACTION REQUIRED

TTC Pension Fund Society and TTC Sick Benefit Association Bylaw Amendments

Date:	May 27, 2015
To:	TTC Board
From:	Chief Executive Officer

Summary

Pursuant to the TTC Pension Fund Society (PFS) Bylaw 3.09, the TTC Board sanction is required in order for the Bylaw amendments to be effective. Membership approval of these amendments will be requested at the Annual General Meeting (AGM) of the TTC PFS to be held on Saturday, June 20, 2015.

Recommendations

It is recommended that the TTC Board approve:

1. The TTC PFS Bylaw amendments, attached to this report as Appendix A.
2. The TTC Board appoint James Clarkson, Director Pension Accounting, as Treasurer/Director of the TTC Sick Benefit Association.

Financial Summary

There are no financial implications resulting from the adoption of this report as the Bylaw amendments do not change the existing TTC PFS contribution rate of 9.25% up to the Yearly Maximum Pensionable Earnings (YMPE) and 10.85% above YMPE. The YMPE limit used in calculating the employees' and employers' contribution amounts are detailed in the "History of Pension Improvements", attached to this report as Appendix B.

Employees contribute to the PFS pension plan based on their earnings and the above noted contribution rates. Employers match the employees' contribution amounts.

Accessibility/Equity Matters

This report has no accessibility or equity issues.

Decision History

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, 2015, the PFS Board of Directors approved a one year base period update (to move the base year from December 31, 2013 to December 31, 2014) and a 2% pensioner increase, which is subject to limits under the Canadian Income Tax Act. As detailed in the "History of Pension Improvements", attached to this report as Appendix B, this amendment maintains the base period at current levels for the second consecutive year.

These plan changes are effected by the Bylaw amendments, which were approved by the PFS Board of Directors on May 5, 2015. However, in accordance with PFS Bylaw 3.09 any Bylaw amendments require sanctioning by the TTC Board and approval by the Regular Members at the PFS AGM to be held on June 20, 2015. Administration of these benefit changes will commence after all required approvals are received.

TTC Sick Benefit Association (SBA)

Under the Sick Benefit Association, By-law No. 1, Section 4 (1) establishes a Board of eight Directors, four appointed by the TTC Board and four appointed by Local 113 of the Amalgamated Transit Union (ATU).

With the resignation of Mary Darakjian as Treasurer of the TTC SBA on March 6, 2015, a vacancy on the TTC SBA Board has been created. In order to maintain balance representation on the TTC SBA Board, the TTC Board appointment for vacancy is necessary.

It is recommended that the TTC Board appoint James Clarkson, Director Pension Accounting, as the Treasurer/Director of the TTC SBA.

Issue Background

The PFS was established through collective bargaining and incorporated on January 3, 1940 to provide retirement benefits for Toronto's transit employees. The PFS pension plan is administered by a Board, consisting of five Directors appointed by the Toronto

Transit Commission (TTC) and 5 Directors who are ex officio members of the ATU executive.

The PFS is a defined benefit, multi-employer pension plan. It covers substantially all employees of the TTC and ATU (the employers) who have completed six months of continuous service. Contributions are made into the plan by members and matched dollar for dollar by their employer. The plan is registered with the Financial Services Commission of Ontario and is subject to regulation under the Ontario Pension Benefits Act and the Income Tax Act (registration number 0317586).

Effective January 1, 2011 pursuant to the Memorandum of Agreement between the TTC and the ATU Local 113, 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 (OP Trust) and Colleges of Applied Arts and Technology Pension Plan.

As at December 31, 2014, the PFS had approximately 13,260 active members and 7,375 pensioners and net assets of \$5.5 billion. The PFS plan design supports equal cost and 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. Each year the PFS Actuary prepares very detailed analyses of the plan's funded status which guides the Directors in their decisions regarding indexing of pensions in payment, providing updates to the base period and other plan improvements. This model has allowed the plan to contain costs during unfavourable market conditions by foregoing base period updates and indexing, as was the case during the period between 2008 and 2010. On May 5, 2015 the PFS Board of Directors approved the Bylaw amendments, attached to this report as Appendix A, to effect Plan improvements. These amendments will not change the current employer/employee contribution rates, which have been in effect since 2011, and it is worth noting that the PFS contribution rates are among the lowest of other Ontario JSPPs.

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. After taking into account this year's plan improvements, the funded status of the plan on a going concern basis will remain at levels comparable to the prior two years at approximately 94%. As confirmed by the plan actuary, Mercer (Canada) Limited, a compliant actuarial valuation as at January 1, 2015, will be filed with Regulators within the prescribed deadlines.

Contact

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Attachments

Appendix A – Pension Fund Society Bylaw Amendments
Appendix B - History of Benefit Improvements

PENSION FUND SOCIETY BYLAW AMENDMENTS

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

2 DEFINITIONS

(31) “Survivor Benefit Date” shall mean January 1, 201~~5~~.

6.02 PENSIONABLE EARNINGS

1) Average Base Period Earnings

Effective January 1, 201~~5~~ for Regular Members retiring on or after January 1, 201~~5~~ pursuant to Bylaw 8 and for Regular Members whose death occurs on or after January 1, 201~~5~~ for purposes of Bylaw 11, and effective May 5, 201~~5~~, for Regular Members terminating on or after May 5, 201~~5~~, for the purposes of calculating the amount of Regular Member’s pension for Credited Service accrued to December 31, 201~~4~~, Average Base Period Earnings shall be the greater of:

- (a) the average of the highest consecutive four calendar year’s Pensionable Earnings prior to 201~~5~~ 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 201~~5~~.

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 201~~5~~, the Member’s Base Period shall be his or her total number of calendar years, including fractional years, of Pensionable Earnings prior to 201~~5~~.

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) For a Regular Member who retires pursuant to Bylaw 8.01 or 8.02 on or after January 1, 2015 and for a Regular Member whose death occurs on or after January 1, 2015 for purposes of Bylaw 11, the annual amount of pension shall be 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, 2014; 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, 2014; 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, 2014, determined in accordance with the Bylaws of the Society in effect as at December 31, 2014.
- 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(4) 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 2.0%. The pensions to which the increase is applicable shall be determined in the same manner as provided under Bylaw 13.01.
- 8) Effective January 1, 2015, 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.

HISTORY OF BENEFIT IMPROVEMENTS

YEAR	UPDATE TO BASE PERIOD	PENSIONER INCREASE	YMPE	CONTRIBUTIONS	CHANGE(S)
2015	Formula update – base up to 2014	2%	\$53,600	9.25%/10.85%	Survivor benefit date to 2014; contributions unchanged
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

HISTORY OF BENEFIT IMPROVEMENTS

YEAR	UPDATE TO BASE PERIOD	PENSIONER INCREASE	YMPE	CONTRIBUTIONS	CHANGE(S)
2004	No update – 2002 and 2003 not included in base	0%	\$40,500	6.25%/7.85%	
2003	No update – 2002 not included	1.70%	\$39,900	6.25%/7.85%	Formula used to calculate indexing reduced
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 1st 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