



Metropolitan Toronto Pension Plan Surplus Sharing Proposal

CIVIL LITIGATION | CLASS ACTIONS | LABOUR LAW | PENSION & BENEFITS
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Introduction and Purpose of Meeting

The Pension Committee for the Metropolitan Toronto Pension Plan Surplus Distribution:

- A voluntary committee of retired Plan members; established to negotiate a Surplus Sharing Proposal with the City
- Comprised of three members: Wes Rowe, Paul Enright and John Walford
- The Proposal we are discussing today only involves pension benefits – other post-retirement benefits remain unchanged

Introduction and Purpose of Meeting

Introduction by City of Toronto Representatives

- Mike St. Amant and Ligaya Pascual

Introduction and Purpose of Meeting

- Who are the Committee's advisors?
 - Mark Zigler and Anthony Guindon of Koskie Minsky LLP:
 - Experience in pension and employee benefit matters, pension surplus disputes and class proceedings; significant surplus cases have included Eaton's, Dominion Stores, NHL Pensioners, Montreal Trust, National Trust and Canada Life
- In addition to legal advisors, the Committee has retained the services of Tom Levy and Ron Olsen of Segal Consulting, a leading human resources and actuarial services firm, to provide actuarial advice

Introduction and Purpose of Meeting

Why are we holding these meetings?

- To meet your Committee representatives
- Explain the Surplus Sharing Proposal
- Express support for the Proposal
- Provide an opportunity for you to ask questions and express your concerns; and
- Seek member support

The Current Metro Plan

- Registered in Ontario and regulated by the Financial Services Commission of Ontario (“FSCO”) and the Canada Revenue Agency
- The Plan has been closed to new members since 1968, when new city employees began to participate in the Ontario Municipal Employees’ Retirement System (“OMERS”)
- Only participants in the Plan are retirees, surviving spouses of deceased members in receipt of a survivor pension, and a small number of deferred vested Plan members

The Current Pension Plan

- The Plan has more assets than are required to fund members' pensions – this is known as “surplus”
- The Plan has approximately \$481 million in assets, while approximately \$406 million is required to fund members' pensions
- Accordingly, preliminary estimates of the amount of surplus that may be available for sharing between the City and Plan members is approximately **\$75 million** as at December 31, 2017
- The average age of retired Plan members, as at December 31, 2016, was 82

Pension Plan Mergers

- The City is proposing to merge the pension obligations with OMERS
- Legislation limits the amount of plan assets that can be transferred from a single employer pension plan to a jointly sponsored pension plan, such as OMERS, to the amount required to fund the pensions being transferred
- This means that surplus in the Plan cannot be transferred to OMERS, and has to be distributed, if the merger proceeds

Pension Plan Mergers

- Asset transfers involving plans such as the Metro Plan under Ontario's pension legislation are subject to approval by the pension regulator, FSCO. Transfers occur if no more than 1/3 object, and pensions cannot be reduced as a result of the transfer
- It is expected that the City will begin this process later this summer, provided sufficient consent for the surplus sharing Proposal is received

Pension Surplus Withdrawals

- Without an agreement, with at least 2/3 of the Plan members consenting to the sharing of surplus in the Plan, there will be no distribution of surplus. The City could simply wait until all Plan members have passed away, and potentially claim entitlement to any surplus left in the Plan at that time

Pension Surplus Withdrawals

- Ontario's pension legislation sets out rules regarding payment of surplus out of a pension plan
- Without sufficient member consent, the employer cannot withdraw surplus from an ongoing pension plan

Pension Surplus Withdrawals

- When a pension plan is wound up, surplus must be distributed. However, the employer, not plan members, generally gets to decide when to wind up a pension plan
- Unless the employer can establish legal entitlement to surplus based on the pension plan documents, the employer can only receive surplus payment through an agreement with pension plan members

Pension Surplus Withdrawals

- Surplus ownership is a complicated legal question involving analysis of historical plan documents
- In this case, we believe Plan members are entitled to surplus; the City does not agree
- However, Plan members cannot compel a distribution of surplus
- If Plan members wish to receive a surplus payment, a sharing agreement with the City is necessary

Main Terms of the Proposal

- Surplus will be divided on a 50/50 basis between members of the Plan as at January 31, 2018 and the City
- Expenses incurred by the City and Plan members in negotiating and implementing the Proposal will be paid out of their respective surplus shares
- Each member's share will be determined *pro rata*, based on amount of pension being received
- No member will receive less than \$2,500

Main Terms of the Proposal

Illustration of Potential Surplus Distributions

	Low Surplus Scenario	Medium Surplus Scenario	High Surplus Scenario
Estimated Surplus Available for Distribution to Members	\$28 million	\$36 million	\$44 million
Estimated Distribution	8 times your Monthly Pension	10 times your Monthly Pension	12 times your Monthly Pension
Minimum Distribution Amount	\$2,500	\$2,500	\$2,500

Main Terms of the Proposal

Illustration of Potential Surplus Distribution

Plan Member's Annual Pension:	\$12,000
Monthly Pension Benefit:	\$1,000
Available Surplus:	\$28,000,000
Surplus Allocation:	Monthly benefit x 8
Surplus Distribution:	\$8,000 (\$1,000 x 8)

Note: This illustration is based on a preliminary estimate. The actual amount Plan members might receive cannot be known with certainty until the amount of available surplus has been determined after the transfer to OMERS, and payments are made

Conditions for Proposal to Proceed

- At least 75% of Plan members must consent to the Proposal by no later than **May 15, 2018**
- The merger with OMERS must proceed, with no more than 1/3 of Plan members objecting to the transfer
- Asset transfer and surplus withdrawal application must be approved by FSCO

Recommendation and Rationale

- The Committee and counsel recommend acceptance of the Proposal
- It took months of negotiation, and is the best offer available
- It gives pensioners the following benefits:
 - Continued pensions from a multi-billion dollar pension fund
 - Guaranteed cost-of-living adjustments
 - A significant surplus payment
 - City retains responsibility to fund transferred members' benefits if OMERS cannot pay

Impact of the Proposal on Pensions

- If the merger proceeds, members will continue to receive their monthly pension, with no reduction, payable out of the OMERS plan
- Members will also benefit from guaranteed cost of living adjustments in accordance with the terms of the OMERS plan

Impact on other Post-Retirement Benefits

- Post-retirement benefits (such as medical and dental benefits) that retirees are currently receiving will not be affected as a result of the merger

Tax and Government Benefit Issues

- Individual surplus distributions will be subject to withholding tax
- Members who are aged 71 or greater do not have the ability under the *Income Tax Act* to shelter this income through a transfer to a registered retirement savings vehicle

Tax and Government Benefit Issues

- Depending on the size of a members' distribution, there could be a reduction of a members' means tested government benefits (such as GIS or OAS) the year following distribution
- Members should consult with their financial or tax advisors regarding individual implications of surplus distribution

Next Steps

- If you haven't already done so, we encourage you to complete and submit your Authorization and Retainer form to Koskie Minsky LLP to support the Proposal as soon as possible
- If at least 75% of members vote in favour of the Proposal by submitting their Authorization and Retainer form by May 15, 2018, the City will proceed with the merger process
- Failure to vote is the same as voting “No”

Next Steps

- If the merger with OMERS is approved, the City will file a surplus withdrawal application with FSCO
- We do not expect any surplus distribution to occur prior to the end of 2019, at the earliest
- If you move, or your personal contact information changes, please be sure to provide your new information to Koskie Minsky, as well as the City of Toronto

Next Steps

- Estate Executors: estate executors of members who pass away are encouraged to keep estates open until the surplus distribution.

Questions and Contacts

Koskie Minsky LLP

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