

NEWS BRIEF



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THE PROPOSED PENSION PLAN FOR MEMBERS OF TORONTO CITY COUNCIL

On December 4, 1968, Toronto City Council voted in favour of a pension plan for its members, to commence in 1969 if provincial approval is obtained. The plan is similar to that in force since 1960 for Ontario MPPs. As such, the Toronto plan would be considerably more liberal, and thus more costly to the taxpayer, than pension systems available to either Toronto's municipal employees under the Ontario Municipal Employees' Retirement System (O.M.E.R.S.), to legislators in the four other provinces for which we were able to obtain detailed information, to the vast majority of U.S. state legislators in the 38 states with such plans, and to Canada's Federal MPs. We were unable to compare Toronto's proposal to other pension schemes for elected municipal officials since no such schemes exist in Canada.

Pension plans are financed by three basic sources--employee contributions, interest earnings on investment of contributions (usually valued at 1/3 the revenue of a mature fund), and employer contributions (usually the balance of the programme's cost). Programme cost--aside from disability provisions, widow's benefits, etc.--depends upon the percentage of employee contributions paid back as a pension and upon age and service requirements.

The proposed plan calls for pension eligibility at age 55 after 5 years service on City Council. To illustrate in the case of an alderman, his contribution of 6% per year of his annual taxable salary of \$5,000 (\$2,500 of the \$7,500 total being tax-free) would entitle him to an annual pension of \$1,125. This represents 75% of his total contributions of \$1,500 (\$300 per year for 5 years), which would be depleted in the first 15 months of retirement at the \$1,125 annual pension rate. As shown in Table I, the figures would compare to 40% and 30 months in O.M.E.R.S. and Alberta, 41.7% and 28 months under the Federal plan, 50% and 24 months in British Columbia and New Brunswick, and 62.5% and 19 months in Nova Scotia.

TABLE I

VARIATIONS IN CONTRIBUTION AND PENSION RETURN*

| PLAN | EMPLOYEE CONTRIBUTION (% OF SALARY) | TOTAL 5-YEAR EMPLOYEE CONTRIBUTION | ANNUAL PENSION PURCHASED | PENSION AS % OF TOTAL EM'EE CONTRIBUTION | NO. OF MONTHS BY WHICH PENSION DEPLETES CONTRIBUTION |
|-----------------|-------------------------------------|------------------------------------|--------------------------|--|--|
| CITY COUNCIL | 6% | \$1,500 | \$1,125 | 75% | 15 months |
| ONTARIO MPP | 6 | 1,500 | 1,125 | 75 | 15 |
| NOVA SCOTIA MPP | 8 | 2,000 | 1,250 | 62.5 | 19 |
| BRIT. COL. MPP | 6 | 1,500 | 750 | 50 | 24 |
| NEW BRUNS. MPP | 9 | 2,250 | 1,125 | 50 | 24 |
| FEDERAL MPP | 6 | 1,500 | 625 | 41.7 | 28 |
| ALBERTA MPP | 5 | 1,250 | 500 | 40 | 30 |
| O.M.E.R.S. | 4** | 1,000 | 400 | 40 | 30 |

* Assuming annual taxable salary of \$5,000 and retirement after 5 yrs. service.

** To Canada Pension Plan ceiling (\$5,100 in 1968); 5 1/2% above that amount.

Table II indicates how public cost (i.e. the City's contribution to pension plans) is affected by retirement age eligibility and liberality of pension benefits. It does not show an additional cost element--early pension eligibility results in a loss of potential interest earnings on employee contributions. The variations set forth in Table II were put before City Council, which chose the first listed.

TABLE II
CITY COST OF PLANS CONSIDERED BY CITY COUNCIL

| <u>AGE ELIGIBILITY</u> | <u>MINIMUM SERVICE REQUIREMENT</u> | <u>PENSION AS % OF TOTAL EMPLOYEE CONTRIBUTION</u> | <u>% ANNUAL COST TO CITY</u> | <u>ANNUAL COST TO CITY*</u> |
|------------------------|------------------------------------|--|------------------------------|-----------------------------|
| 55 | 5 yrs. | 75% | 50.7% | \$75,203 |
| 60 | 5 | 75 | 47.7 | 70,753 |
| 65 | 5 | 75 | 36.9 | 54,734 |
| 55 | 5 | 41.7 | 24.6 | 36,489 |
| 65 | 5 | 41.7 | 16.0 | 23,733 |

* Bureau calculations based on 1968 total taxable salaries to City Council of \$148,330, excluding Committee Chairmanships but including \$16,443 in annual contributions for 22 years to meet City portion of back service (as estimated by City Finance Commissioner).

Since the proposal would count past service among the 5 years required for pension, the past-service record of incumbents is pertinent. Of the 23 incumbents, 13 could retire from service at the end of 1968 and either collect immediately or upon reaching age 55; 21 of the 23 could do so one year later at the end of their present term. As an indication of what the future might hold, a look at Council membership from 1947 through 1968 reveals that 43 of the 83 (52%) who have served held Council seats for 5 or more years. Yet only 17 of these 43 have served for more than 8 years.

The following questions appear to require further examination:

- Would a former Council member not now an incumbent qualify for past-service toward pension if re-elected?
- What would be the result if a retired member returned to office? Would his pension be forfeited? Suspended? Increased for the additional service?
- With 3-year Council terms now in force, why was the 5-year service requirement chosen instead of 6 years?
- Why did Council select a pension plan that differs so greatly from the O.M.E.R.S. plan covering City employees?
- With the Canada Pension Plan available to all, was sufficient consideration paid to an integrated as opposed to a "stacked" plan?