Agenda – Council – December 14, 2011

Report "A" – Executive Policy Committee – December 7, 2011

Item No. 18 Winnipeg Police Pension Plan – Solvency Exemption

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 7, 2011, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submits the following to Council:

1. That the City of Winnipeg request the Police Pension Board to give notice and make an election for the Winnipeg Police Pension Plan to be exempt from the solvency provisions and transfer deficiency provisions of *The Pension Benefits Act (Manitoba)*, in accordance with the steps outlined in the Solvency Exemption for Public Sector Pension Plans Regulation, for the reasons noted in the report of the Winnipeg Public Service.

2. That, in the event solvency exemption is not achieved, the City explore all options to reduce the significant financial impact related to solvency deficiency rules and recommend a course of action for Council approval.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Agenda – Council – December 14, 2011

Report "A" – Executive Policy Committee – December 7, 2011

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 7, 2011, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Issue: **Winnipeg Police Pension Plan – Solvency Exemption**

Critical Path: **Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
B. Holsten Boyer, Manager of Financial Planning and Review	J. Ferrier City Treasurer	M Ruta CFO	D Joshi COO

RECOMMENDATIONS

1. That the City of Winnipeg request the Police Pension Board to give notice and make an election for the Winnipeg Police Pension Plan to be exempt from the solvency provisions and transfer deficiency provisions of the Manitoba *Pension Benefits Act*, in accordance with the steps outlined in the *Solvency Exemption for Public Sector Pension Plans Regulation,* for the reasons noted in this report.

2. That, in the event solvency exemption is not achieved, the City explore all options to reduce the significant financial impact related to solvency deficiency rules and recommend a course of action for Council approval.

REASON FOR THE REPORT

The City of Winnipeg is required to contribute the following to the Winnipeg Police Pension Plan (the Plan):

(a) amounts matching the police employees' contributions of 8% of pensionable earnings,
(b) the balance of the actuarial cost of the benefits accruing under the Plan in excess of the 16% of pensionable earnings (including 2% of pensionable earnings for post-retirement cost-of-living-adjustment [COLA] benefits), except to the extent that this balance is financed by the Plan's Contribution Stabilization Reserve, and
(c) any special payments required to liquidate an unfunded liability or solvency deficiency, under the terms of the *Pension Benefits Act*.

The City has been matching police employee contributions at 8% of pensionable earnings in recent years, with the balance of the cost of the Plan being funded from the Contribution Stabilization Reserve within the Plan. It is anticipated that the reserve will soon be depleted, requiring the City contributions to increase. The actuarial cost of the Plan (including 2% for

COLA benefits) is 22.07% of pensionable earnings. Therefore the City's contributions are expected to increase from 8% (approximately $9.5 million in 2010) to approximately 14.07% of pensionable earnings in the future (approximately $16.7 million for 2010).

The current actuarial projection for a solvency deficiency as at December 31, 2011 and December 31, 2012 is approximately $50 million. This calculation assumes the Plan's investment return to the end of August, 2011 at -2%, subsequent returns at 6.25% (the actuarial assumption rate for investment returns) and also includes an estimate of the increase in liabilities due to changes in bond yields. A reasonable rule of thumb for the sensitivity of the solvency deficiency to the fund rate of return from September 1, 2011 to December 31, 2012 is approximately $5 million for each 1% change. As an example, if there were a 3% reduction in the rate of return for the plan, this would translate to a larger solvency deficiency at December 31, 2012 of approximately $15 million. It is also important to note the liabilities are highly sensitive to changes in bond yields. A small decrease in bond yields can increase the solvency deficiency by $20 million or more. A solvency deficiency will result in significant additional payments by the City (item (c) above) as, under the normal provisions of the *Pension Benefits Act*, solvency deficiencies must be liquidated over not more than five years.

Recent provincial legislation allows exemption from the solvency deficiency requirements for public sector pension plans, including the Winnipeg Police Pension Plan, and City Council must decide whether to take action under the terms of this new legislation.

IMPLICATIONS OF THE RECOMMENDATIONS

The Manitoba *Pension Benefits Act* requires that an actuarial report be prepared at least every three years and that this report contain the results of actuarial valuations carried out on both a going concern basis and a solvency basis. A solvency valuation is an actuarial valuation that shows the hypothetical position of a pension plan as if it were terminated on the valuation date and all benefit obligations of the plan were settled on that date. The last actuarial report for the Winnipeg Police Pension Plan was filed with the Manitoba Pension Commission based on the actuarial valuation as at December 31, 2009. At that time, the Plan was fully funded on both a going concern and solvency basis and therefore no special payments were required from the City of Winnipeg. Under the Manitoba *Pension Benefits Act*, the next required filing would be as at December 31, 2012. Consequently, should the Police Pension Board choose not to file the December 31, 2011 valuation report and instead wait to file with the regulator as at December 31, 2012, no special payments would be required in 2012. However, based on actuarial estimates, special payments of approximately $12 million annually would be required commencing in 2013, for a period of 5 years to cover the projected 2012 solvency deficiency. The annual solvency deficiency would need to be reviewed on an ongoing basis and any special payments amended accordingly. Such solvency deficiency payments would create a significant financial burden for the City.

The purpose of a solvency valuation and the related funding requirements prescribed under the *Pension Benefits Act* is to increase the likelihood that, if a pension plan were to be terminated, it would have sufficient assets to settle all of its benefit obligations. Even if a pension plan is fully funded on a going concern basis, it might not be able to meet its obligations if it were terminated.

There is general recognition that private sector single employer pension plans and large public sector plans like the Winnipeg Police Pension Plan carry very different risks. Given that the City of Winnipeg is unlikely to default on its obligations, an election for exemption from the solvency funding requirements seems reasonable and appropriate.

Other public sector pension plans such as the Winnipeg Civic Employees' Pension Plan, the Manitoba Healthcare Employees Pension Plan and the pension plans for the University of Manitoba and University of Winnipeg have elected for solvency exemption. Also, the Manitoba Civil Service Superannuation Plan and the Manitoba Teachers' Retirement Allowances Fund are not subject to the Manitoba *Pension Benefits Act's* funding requirements. In addition, a recent comparison study of major Canadian police pension plans indicates that the following police plans are not subject to solvency funding:

- Vancouver (BC Municipal Pension Plan),
- Alberta (Special Forces Pension Plan),
- Regina Police Pension Plan,
- Saskatoon Police Pension Plan
- RCMP, and
- Ontario (OMERS).

Therefore, an election for exemption for the Winnipeg Police Pension Plan would be very consistent with the approach taken by other large public sector pension plans in Manitoba and other major Canadian police pension plans.

It is important to note that any action on the election for a solvency exemption does not impact the process and funding of all other pension plan contribution obligations, including any arising from actuarial valuations on a going concern basis.

If the recommendation in this report is approved, the Police Pension Board (the Board) will be required to give notice to all Police Pension Plan members and the unions representing Plan members, and must make the solvency exemption election in respect of the Plan provided that fewer than 1/3 of the active Plan members and fewer than 1/3 of the pensioners and deferred pensioners object to the proposed election. The provision relating to the City requesting the Board to give notice and make the solvency exemption election are outlined in section 5(1) of the attached *Solvency Exemption for Public Sector Pension Plans Regulation* (Appendix 1).
If the requisite conditions are met and the Board makes the solvency exemption election, the Plan will be permanently exempted from the *Pension Benefits Act's* solvency funding provisions. However, the Regulation would require that:

- the Board continue to carry out solvency valuations and include the results in the actuarial reports filed with the Manitoba Pension Commission,
- no amendment be made to the Plan if the amendment would have the effect of reducing the Plan's solvency ratio below 0.9, and

- in the event that the Plan is terminated in the future with insufficient assets, the City be required to fund any termination deficiency in accordance with the normal provisions of the *Pension Benefits Act*.

In summary, the reasons for the request to the Board to give notice and make an election for the Plan to be exempt from the solvency provisions and transfer deficiency provisions of the *Pension Benefits Act* are:

1. The significant financial burden to the City of solvency deficiency payments (estimated to be approximately $12 million annually commencing in 2013),
2. The hypothetical nature of the solvency valuation which assumes the Plan termination and settlement of all plan obligations at a proposed date,
3. Other large public sector pension plans in Manitoba have elected for solvency exemption and in addition, other major Canadian police pension plans are not subject to solvency funding, and
4. Electing for solvency exemption in the Plan would be consistent with the pension plan in place for all other City of Winnipeg employees from a solvency exemption perspective. (See also History discussion below.)

In the event solvency exemption is not achieved, the by-law governing the Plan permits Council to amend, terminate, merge or divide the Plan. However, the by-law does not permit any reduction in accrued benefits. The expected solvency deficiency is in respect of accrued benefits and, as a result, the expected solvency deficiency must be funded regardless of any changes made to the plan for future service.

HISTORY

The Winnipeg Civic Employees' Pension Plan elected for solvency exemption in 2010. This pension plan is a multi-employer pension plan and provides pension benefits to all employees of the City of Winnipeg with the exception of police officers. If a solvency exemption for the pension plan for Winnipeg police officers were to proceed, it would be consistent with the pension plan in place for all other employees at the City of Winnipeg from a solvency exemption perspective.

FINANCIAL IMPACT

Project Name: **First Year of Program** 2011

Winnipeg Police Pension Plan - Solvency Exemption

	2011	2012	2013	2014	2015
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: No amounts have been included in the operating budget for the coming years to fund a solvency deficiency in the Winnipeg Police Pension Plan. Actuarial estimates currently advise that if a solvency exemption is NOT achieved, special payments of approximately $12 million annually will be required beginning in 2013, assuming the next actuarial valuation report for the Police Pension Plan is filed with the regulator as at December 31, 2012.

original signed by

R. Abeysekera, Campus Controller

CONSULTATION

In preparing this report there was consultation with:

Legal Services Department and Corporate Support Services Department.

SUBMITTED BY

Department Corporate Finance
Division Financial Planning and Review
Prepared by: Betty Holsten Boyer
Date: October 21, 2011
File No.

Appendix 1 – Excerpt from *“The Pension Benefits Act – Solvency Exemption for Public Sector Pension Plans Regulation”*

Document.pdf