NEW WINNIPEG POLICE PENSION BY-LAW

EXAMPLES OF APPLICATION OF SURPLUS AND RISK-SHARING PROVISIONS IN SUBSECTIONS (5) AND (6) OF SECTION 5 OF PROPOSED PLAN TEXT

Subsection 5(5) – Allocation of Actuarial Surpluses

"(a) If the City has made special payments since January 1, 2003 in accordance with clause 3(b) of Section 4 and such special payments have not been offset by a reduction in contributions in accordance with clause 3(c) of Section 4, an amount of Actuarial Surplus not exceeding such special payments plus interest at the net Fund rates of return since the special payments were made shall be transferred from the General Component of the Main Account to the City Account. The cumulative amount that may be transferred to the City Account in accordance with this clause shall not exceed 25% of the Required Contributions of the Contributing Members, With Interest, at the date of the actuarial valuation."

Example:
City has made special payments between January 1, 2003 and December 31, 2010 of $40,000,000 to liquidate unfunded liabilities or solvency deficiencies.
December 31, 2010 actuarial valuation discloses $30,000,000 actuarial surplus.
25% of contributing members' required contributions, with interest, at December 31, 2010 amounts to $28,000,000.

Action:
$28,000,000 of actuarial surplus is transferred to City Account for City to use to reduce future contributions.
(Balance of actuarial surplus dealt with under subsequent steps.)

"(b) If the rate of cost-of-living adjustments to pensions most recently determined in accordance with Section 8 is less than 75% of the percentage change in the Consumer Price Index for Canada and the Contribution Stabilization Reserve is less than its target level, equal amounts of Actuarial Surplus shall be used to increase the Level of COLA Funding within the General Component of the Main Account and to transfer from the General Component of the Main Account to the Contribution Stabilization Reserve an amount not exceeding the lesser of the amount required to increase the Level of COLA Funding to the level required to increase the rate of future cost-of-living adjustments to pensions to 75% of the percentage change in the Consumer Price Index for Canada and the amount required to increase the Contribution Stabilization Reserve to its target level."

Example:
Existing COLA rate is 60% of CPI.
CSR is $60,000,000 (target level: $90,000,000).
Level of COLA funding is $90,000,000.
Actuarial surplus is $30,000,000.

Action:
Level of COLA funding increased by $15,000,000 (which will permit COLA rate to increase to 70% of CPI).
CSR increased by $15,000,000.

"(c) If the rate of cost-of-living adjustments to pensions most recently determined in accordance with Section 8 is equal to or greater than 75% of the percentage change in the Consumer Price Index for Canada and the Contribution Stabilization Reserve is less than its target level, an amount of Actuarial Surplus shall be transferred from the General Component of the Main Account to the Contribution Stabilization Reserve not exceeding the amount required to increase the Contribution Stabilization Reserve to its target level."

Example:
Existing COLA rate is 75% of CPI.
CSR is $60,000,000 (target level: $90,000,000).
Actuarial surplus is $30,000,000.

Action:
CSR increased by $30,000,000.

"(d) If the rate of cost-of-living adjustments to pensions most recently determined in accordance with Section 8 is less than 75% of the percentage change in the Consumer Price Index for Canada and the Contribution Stabilization Reserve is equal to or greater than its target level, an amount of Actuarial Surplus shall be used to increase the Level of COLA Funding within the General Component of the Main Account to a level not exceeding that required to increase the rate of future cost-of-living adjustments to pensions to 75% of the percentage change in the Consumer Price Index for Canada."

Example:
Existing COLA rate is 60% of CPI.
CSR is $90,000,000 (target level: $90,000,000).
Level of COLA funding is $90,000,000.
Actuarial surplus is $30,000,000.

Action:
Level of COLA funding increased by $22,500,000 (which will permit COLA rate to increase to 75% of CPI).
(Balance of actuarial surplus dealt with under step (e).)

"(e) If the rate of cost-of-living adjustments to pensions most recently determined in accordance with Section 8 is equal to or greater than 75% of the percentage change in the Consumer Price Index for Canada and the Contribution Stabilization Reserve is equal to or greater than its target level, equal amounts of Actuarial Surplus shall be transferred from the General Component of the Main Account to the Plan Members' Account and the City Account."

Example:
Existing COLA rate is 75% of CPI.
CSR is $90,000,000 (target level: $90,000,000).
Actuarial surplus is $20,000,000.

Action:
Transfer $10,000,000 to Plan Members' Account.
Transfer $10,000,000 to City Account.

Subsection 5(6) – Resolution of Funding Deficiencies

"(a) If the balance in the City Account at the date of the actuarial valuation is greater than nil and the rate of cost-of-living adjustments to pensions most recently determined in accordance with Section 8 is greater than 75% of the percentage change in the Consumer Price Index for Canada, equal amounts, each of which shall not exceed one-half of the Funding Deficiency, shall be transferred from the City Account to the General Component of the Main Account and be used to decrease the Level of COLA Funding within the General Component of the Main Account to a level not less than that which would result in a decrease in the rate of future cost-of-living adjustments to pensions to 75% of the percentage change in the Consumer Price Index for Canada."

Example:
City Account balance is $10,000,000.
Existing COLA rate is 80% of CPI and level of COLA funding is $120,000,000 (level of COLA funding corresponding to COLA rate of 75% of CPI is $112, 500,000).
Funding deficiency is $30,000,000.

Action:
$7,500,000 transferred from City Account to General Component of Main Account.
Level of COLA funding reduced by $7,500,000 and future COLA rate reduced to 75% of CPI.
(Remaining $15,000,000 of funding deficiency resolved under subsequent steps.)

"(b) If the balance of the Contribution Stabilization Reserve at the date of the actuarial valuation is greater than $48,582,000 (an amount equal to the amount of actuarial surplus at January 1, 2003 allocated to fully fund future cost-of-living adjustments to pensions and deferred pensions at the rate of 75% of expected future percentage changes in the Consumer Price Index for Canada) and either the rate of cost-of-living adjustments to pensions most recently determined in accordance with Section 8 is equal to or less than 75% of the percentage change in the Consumer Price Index for Canada or the balance in the City Account at the date of the actuarial valuation is nil, an amount not exceeding the balance of the Funding Deficiency and not exceeding the excess of the Contribution Stabilization Reserve over $48,582,000 shall be transferred from the Contribution Stabilization Reserve to the General Component of the Main Account."

Example:
CSR is $60,000,000.
Existing COLA rate is 75% of CPI.
Funding deficiency is $15,000,000.

Action:
$11,418,000 (i.e. $60,000,000 - $48,582,000) transferred from CSR to General Component of Main Account.
COLA rate remains at 75% of CPI.
(Remaining $3,582,000 of funding deficiency resolved under subsequent steps.)

"(c) If the balance of the Contribution Stabilization Reserve at the date of the actuarial valuation is not greater than $48,582,000 and the balance in the City Account at the date of the actuarial valuation is greater than nil, equal amounts, each of which shall not exceed one-half of the balance of the Funding

Deficiency, shall be transferred from the City Account to the General Component of the Main Account and be used to decrease the Level of COLA Funding within the General Component of the Main Account to a level not less than 25% of the Required Contributions of the Contributing Members, With Interest, at the date of the actuarial valuation."

Example:
CSR is $40,000,000.
City Account is $10,000,000.
Existing COLA rate is 60% of CPI and level of COLA funding is $90,000,000.
Funding deficiency is $20,000,000.

Action:
Transfer $10,000,000 from City Account to General Component of Main Account.
Level of COLA funding reduced by $10,000,000 (which will require future COLA rate to be reduced to 53% of CPI).

"(d) If the balance of the Contribution Stabilization Reserve at the date of the actuarial valuation is not greater than $48,582,000 and the balance in the City Account at the date of the actuarial valuation is nil, equal amounts, each of which does not exceed one-half of the balance of the Funding Deficiency, shall be deducted from the Level of COLA Funding within the General Component of the Main Account and transferred from the Contribution Stabilization Reserve to the General Component of the Main Account, provided that the amount so deducted or transferred shall not reduce the Level of COLA Funding to less than 25% of the Required Contributions of the Contributing Members, With Interest, at the date of the actuarial valuation."

Example:
CSR is $40,000,000.
City Account is nil.
Existing COLA rate is 60% of CPI and level of COLA funding is $90,000,000.
Funding deficiency is $20,000,000.

Action:
Level of COLA funding reduced by $10,000,000 (which will require future COLA rate to be reduced to 53% of CPI).
Transfer $10,000,000 from the CSR to the General Component of the Main Account.

"(e) If the Level of COLA Funding is no greater than 25% of the Required Contributions of the Contributing Members, With Interest, at the date of the actuarial valuation, an amount not exceeding the balance of the Funding Deficiency shall be transferred from the Contribution Stabilization Reserve to the General Component of the Main Account."

Example:
CSR is $20,000,000.
Level of COLA funding is $28,000,000 (equal to 25% of contributing members' required contributions, with interest, at the valuation date) and existing COLA rate (corresponding to this level of COLA funding) is 20% of CPI.
Funding deficiency is $30,000,000.

Action:
Transfer $20,000,000 from CSR to General Component of Main Account.
(Remaining $10,000,000 of funding deficiency dealt with in step (g).)

"(f) If the balance of the Contribution Stabilization Reserve and the balance in the City Account at the date of the actuarial valuation are both nil, an amount not exceeding the balance of the Funding Deficiency shall be deducted from the Level of COLA Funding within the General Component of the Main Account, provided that the amount so deducted or transferred shall not reduce the Level of COLA Funding to less than 25% of the Required Contributions of the Contributing Members, With Interest, at the date of the actuarial valuation."

Example:
CSR is nil.
City Account is nil.
Existing COLA rate is 50% of CPI and level of COLA funding is $80,000,000.
25% of contributing members' required contributions, with interest, is $30,000,000.
Funding deficiency is $20,000,000.

Action:
Level of COLA funding reduced by $20,000,000 (which will require future COLA rate to be reduced to 37.5% of CPI).
Note that, since CSR is nil, the City will be contributing the full balance of the normal actuarial cost of the benefits, currently between 14% and 15% of pay.

"(g) If the Level of COLA Funding is no greater than 25% of the Required Contributions of the Contributing Members, With Interest, at the date of the actuarial valuation and the balance of the Contribution Stabilization Reserve is nil, the balance of the Funding Deficiency is an unfunded liability to be liquidated by additional City contributions in accordance with clause (3)(b) of Section 4."

Example:
CSR is nil.
Level of COLA funding is $28,000,000 (equal to 25% of contributing members' required contributions, with interest) and existing COLA rate is 20% of CPI.
Funding deficiency is $20,000,000.

Action:
City must liquidate funding deficiency by making special arrangements in accordance with the Pensions Benefits Act (over 5 or 15 years, depending on whether the funding deficiency is a "solvency deficiency" or "unfunded liability"). These special payments would be in addition to its normal contributions (likely in the range of 14% to 15% of pay).