Agenda – Executive Policy Committee – November 13, 2009

REPORTS

Item No. 2 The Winnipeg Civic Employees Benefits Program – Contribution Rates
eFile GU-2

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

That effective January 1, 2010, the City increase employer contributions to the Winnipeg Civic Employees' Benefits Program for the pension and disability plans to an average of 8% of pensionable earnings (i.e. a rate of 7.6% on earnings up to the yearly maximum pensionable earnings and a rate of 9.4% on earnings above the yearly maximum pensionable earnings), from the current average of 6.7% of pensionable earnings.

ADMINISTRATIVE REPORT

ISSUE: The Winnipeg Civic Employees' Benefits Program - Contribution Rates

Critical Path: Executive Policy Committee - Council

AUTHORIZATION

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RECOMMENDATIONS

1. That effective January 1, 2010, the City increase employer contributions to the Winnipeg Civic Employees' Benefits Program for the pension and disability plans to an average of 8% of pensionable earnings (i.e. a rate of 7.6% on earnings up to the yearly maximum pensionable earnings and a rate of 9.4% on earnings above the yearly maximum pensionable earnings), from the current average of 6.7% of pensionable earnings.

IMPLICATIONS OF THE RECOMMENDATIONS

A strategic review of the Winnipeg Civic Employees' Benefits Program Pension and Disability Plans has recently been undertaken. The cost of the Program is 24.4% of pensionable earnings while combined contributions from the employers and the employees are 13.4% of pensionable earnings (average of 6.7% each on a matched basis), leaving a shortfall of 11% of pensionable earnings. Increasing contributions to an average of 8% for both employer and employees will have the effect of reducing the shortfall, but not eliminating it. To preserve the current benefits for future service, employee and employer contribution rates each would have to increase to between 11% and 12% of pensionable earnings. Until now, the Program's special-purpose reserves have been used to subsidize the cost of benefits. Since the inception of the Program, it has been recognized that the special-purpose reserves would gradually diminish over time as they were drawn down, unless they were able to be replenished through actuarial surpluses generated by "excess" investment returns. In part due to the 2008 market downturn, the Program's reserve position is currently insufficient to continue to subsidize the cost of benefits on a sustainable basis. Concurrent with the review of contributions and benefits, a review of the investment function is also underway, examining industry best practices to determine if changes are required to improve investment performance.

The Pension Trust Agreement gives the Board of Trustees the authority to increase employer and employee contribution rates to an average of 8% of pensionable earnings as part of the remedies to resolve funding deficiencies in the Program based on the results and timing of

actuarial valuations. The Signatory Parties can agree to an earlier increase. Agreeing to increase contribution rates to 8% of pensionable earnings effective January 1, 2010 would avoid the potential effects of retroactivity and allow reasonable notice of the change to be given to employees and participating employers. A decision to increase contributions to the Program, other than as required by the Pension Trust Agreement requires the agreement of the City and a "double majority" of the Signatory Unions. A "double majority" means a majority of the Signatory Unions representing more than 50% of the employee members of the Program who are active members of a Signatory Union. Six signatory unions represent a double majority.

On July 23, 2009, the Board of Trustees of The Winnipeg Civic Employees' Benefits Program wrote to the City and to the Signatory Unions requesting that an authorized official of each Signatory Party advise them in writing by September 30, 2009, whether it agrees to an increase in the Program's contribution rates from the present average of 6.7% of pensionable earnings to at an average of 8% of pensionable earnings, effective January 1, 2010. The timing of the requested response was to permit appropriate communication of any change to all participating employees and employers. To date, six signatory unions have agreed to increase the contribution rates to 8% of pensionable earnings, which is a double majority of the signatory unions. They are as follows:

- Amalgamated Transit Union, Local 1505
- Canadian Union of Public Employees, Local 500
- Manitoba Nurses' Union, Local 1a
- United Fire Fighters of Winnipeg, Local 867 of International Association of Fire Fighters
- Winnipeg Police Association (Staff Sector)
- Winnipeg Police Senior Officers' Association (Staff Sector)

The Board of Trustees of the Program is currently reviewing the program with a view to ensuring its long term financial sustainability and it will be communicating further with the Signatory Parties at a future date.

As noted in the table below, the cost of the Program to the City under the present rate structure is approximately $25 million in 2009 (paid from both the City's tax supported and utility operating budgets ($15.5 million) and from the City Account within the Program ($9.5 million). If contributions increase to an average of 8%, the total cost will increase to $30.237 million in 2010, with $23.111 million paid from the City's operating budgets and $7.126 million from the City Account within the Program.

City of Winnipeg - Employer Contributions	**2009**		**2010**		**Variance**	
	%	**(millions)**	**%**	**(millions)**	**%**	**(millions)**
Financed by:						
Operating Budgets (net)	4.0%	$15.5	6.1%	$23.111	2.1%	$7.611
City Account (within the Program)	2.7%	9.5	1.9%	7.126	- .8%	- 2.374
Total	6.7%	$25.0	8.0%	$30.237	1.3%	$5.237

The total employer contribution is budgeted in each department's operating budget for both the General Revenue Fund and utility operations in the Salaries and Benefits portion of their budget. The portion of the employer contributions flowing from the City Account within the

Program is shown as a savings in the General Revenue Fund. The table above shows the net portion financed by the Operating Budgets.

The Winnipeg Civic Employees' Benefits Program Pension Fund includes the majority of City staff as Plan Members with the exception of police officers. It was restructured into a jointly-trusteed plan in 2003. It is a multi-employer pension plan and includes staff of Riverview Health Centre, some Manitoba Hydro employees who previously worked for Winnipeg Hydro, The Winnipeg Convention Centre, and some smaller groups. The City's police officers and senior police officers are members of the Police Pension Plan. If the City and a Double Majority of the Signatory Unions agree to increase contributions to an average of 8% of pensionable earnings, the other employers in this multi-employer plan will also be required to increase contributions to an average of 8% effective January 1, 2010, as will their employees.

The individual dollar impact to employees will be dependent upon individual salary levels. Employee pension contributions are tax deductible.

HISTORY

While the Program is considered to be a defined benefit program, the Pension Trust Agreement provides for risk sharing between the City (and other participating employers) and the Program Members, and actuarial surpluses and deficits are shared. Since 2003, the City and other participating employers are not responsible for guaranteeing the Program's benefits.

Since the year 2000, the General Revenue Fund, and, therefore, taxpayers, have benefited from the prior pension surplus through reduced employer contributions from the operating budgets. The City matched the employee contributions during this time period, but a portion of the contributions came out of the surplus in the City Account within the Program rather than coming from the operating budgets. Combined with the initial refund approved by Revenue Canada for the excess surplus in the Program and the ongoing savings from making partial contributions from the operating budgets, the benefit to the General Revenue Fund has been approximately $145 million over the past 10 years. The Program Members used their share of the surplus to improve benefits.

Funding deficiencies are determined in actuarial valuations carried out on a "going concern" basis. Whether the Program has an actuarial surplus or funding deficiency is normally determined on an annual basis. The Pension Trust Agreement outlines the actions to be taken by the Trustees in response to a funding deficiency. The Agreement also includes steps to be taken if there is an actuarial surplus subsequent to a funding deficiency.

A comparison of major Canadian Municipal Pension Plans and major Manitoba Pension Plans was conducted by Western Compensation & Benefits Consultants. A similar review was conducted of disability plans. The review considered many factors, including employer contribution levels. Overall, employer contribution levels for the Winnipeg Civic Employees' Benefits Program (which includes both pension and disability benefits) are low compared to the average of the other plans reviewed. Both employer and employee contributions to the City's Police Pension Plan (which does not include disability benefits) are currently 8% of pay.

In 2000, the City adopted the following policies with respect to its contribution rate to the Winnipeg Civic Employees' Benefits Program.

- Subject to Revenue Canada regulations, the City's share of actuarial surpluses (i.e. the City Account) be used to reduce employer contributions to the Employee Benefits Program (including Long Term Disability) to a long term sustainable level, determined as follows:

  - The reduction in contributions will be based on an annual actuarial calculation that amortizes the City's share of surplus over the expected future service of the City's employees;
  - The resulting contribution rate will not be less than 2.3% of pensionable earnings.

- Each employer will pay, at a minimum, the Long Term Disability costs on an ongoing basis per the experience of that employer under the Program. In effect, each employer will pay for its own Long Term Disability costs, as well as a percentage of pay for pension costs applied to all employers.

The City has followed this policy since that time. As in the past, the amount to be funded from the City Account in the Program, as noted in the table above, is a result of the annual calculation by the Program's actuary, amortizing the City's share of surplus over the expected future service of the City's employees. The resulting employer contribution rate for 2010 of an average of 6.1% of pensionable earnings from the operating budgets meets the conditions outlined in the policy noted above. The remaining 1.9% will be funded from the City Account.

FINANCIAL IMPACT

Financial Impact Statement

Date: October 8, 2009

Project Name:

Winnipeg Civic Employees' Benefits Program

First Year of Program **2010**

	2010	2011	2012	2013	2014
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	$ 30,237,000	$ 30,794,000	$ 31,540,000	$ 32,200,000	$ 32,900,000
Less: Incremental Revenue/Recovery	7,126,000	3,060,000	-	-	-
Net Cost/(Benefit)	$ 23,111,000	$ 27,734,000	$ 31,540,000	$ 32,200,000	$ 32,900,000
Less: Existing Budget Amounts	23,111,000	27,734,000	31,540,000	32,200,000	32,900,000
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Budgets for the above noted years have not yet been approved. The financial projections for 2010 and 2011 from the 2009 - 2011 budget process included provision for employer contributions at an average of 8%, although the budgets for these years have not been balanced. The numbers noted above include tax supported and utility operations and are based on total employer contributions at an average of 8% of pensionable earnings, with inflationary increases each year. The impact on the tax-supported operating budget (General Revenue Fund) is reduced by the amount of subsidy available from the City Account in the Program (shown as Incremental Revenue/Recovery). This subsidy is based on an annual actuarial calculation, existing Council policy with respect to the use of the City Account, and the availability of funds in the City Account in the Program.

Original signed by R. Abeysekerra

Departmental Controller

SUBMITTED BY

Department:	Corporate Finance
Division:	
Prepared by:	Jo-Anne Ferrier, City Treasurer
Date:	October 21, 2009
File No.	