Agenda – Executive Policy Committee – July 13, 2011

REPORTS

Item No. 13 Winnipeg Civic Employees' Benefits Program – Contribution Rates

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That Council approve an increase to employer contributions to the Winnipeg Civic Employees' Benefits Program for the pension and disability plans to an average of 10% of pensionable earnings, from the current average of 8% of pensionable earnings, with an increase of 0.5% per annum over a 4-year period (2011 to 2014), with the first increase effective September 1st, 2011 and subsequent increases effective January 1st of each of 2012, 2013 and 2014.

2. That Council amend its policy dated February 23, 2000 regarding Recommendations to Restructure the City of Winnipeg Employee Benefits Program to allow for further reduction of the City Account equal to the value of the annual increase in pension contributions contemplated in Recommendation 1.

3. That the approval of contribution increases to 10% as noted in recommendation #1 be contingent upon:

    a. the Winnipeg Civic Employees' Benefits Program addressing the remaining shortfall in the future service cost of the Program's pension and disability benefits by approving a plan to adjust benefits effective no later than September 1st, 2011; and

    b. approval by a double majority of the Signatory Unions of the above-noted increases to employee contributions, as contributions are matched.

ADMINISTRATIVE REPORT

Issue: **The Winnipeg Civic Employees' Benefits Program – Contribution Rates**

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

AUTHORIZATION

Author	Department Head	CFO	CAO
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RECOMMENDATIONS

1. That Council approve an increase to employer contributions to the Winnipeg Civic Employees' Benefits Program for the pension and disability plans to an average of 10% of pensionable earnings, from the current average of 8% of pensionable earnings, with an increase of 0.5% per annum over a 4-year period (2011 to 2014), with the first increase effective September 1st, 2011 and subsequent increases effective January 1st of each of 2012, 2013 and 2014.

2. That Council amend its policy dated February 23, 2000 regarding Recommendations to Restructure the City of Winnipeg Employee Benefits Program to allow for further reduction of the City Account equal to the value of the annual increase in pension contributions contemplated in Recommendation 1.

3. That the approval of contribution increases to 10% as noted in recommendation #1 be contingent upon:
   a. the Winnipeg Civic Employees' Benefits Program addressing the remaining shortfall in the future service cost of the Program's pension and disability benefits by approving a plan to adjust benefits effective no later than September 1st, 2011; and
   b. approval by a double majority of the Signatory Unions of the above-noted increases to employee contributions, as contributions are matched.

REASON FOR THE REPORT

The future service cost of The Winnipeg Civic Employees' Benefits Program is 24.1% of pensionable earnings and combined employer and employee contributions are 16%, leaving a shortfall of 8.1%. The Program is not sustainable without either increases in contribution rates or benefit adjustments, or a combination of the two. Existing employer contribution rates are lower than the average of other major Canadian municipal pension plans and other major Manitoba pension plans. An increase to employer contributions to The Winnipeg Civic

Employees' Benefits Program must be approved by City Council and a double majority of the Signatory Unions in order to be implemented.

IMPLICATIONS OF THE RECOMMENDATIONS

The future service cost of the Winnipeg Civic Employees' Benefits Program (which provides pension and disability benefits to employees other than police officers) is 24.1% of pensionable earnings. Combined employer and employee contributions are 16% (each at an average of 8%), leaving a shortfall of 8.1%. To preserve the existing pension benefits for future service, employee and employer contribution rates each would have to increase to about12% 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 these 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.

Representatives from the signatory unions and from the City, supported by the Program's consulting actuary, have met to discuss various options to ensure the sustainability of the Program. Recommendations from these meetings have been made to the Board of Trustees. The Board at its recent meetings has accepted the recommended benefit changes contingent on approval of the contribution rate increases by the Signatory parties. One of the changes in benefits relates to the gradual reduction in COLA (cost of living adjustment) funding to 50% of CPI (consumer price index). In the Pension Trust Agreement signed by the City and Signatory Unions, reductions in COLA are shared 50% each by the Members of the Plan and the City to the extent that a City surplus account exists in the plan. If COLA is increased at a future date, surpluses giving rise to these increases will also be shared 50% each by the Members of the Plan and the City. At December 31, 2010, the City Account had a balance of $82.1 million.

A multi-faceted approach is being proposed, which includes increased employer and employee contributions and benefit adjustments, while considering forecasted investment returns and any reserve balances. As benefit adjustments are primarily the responsibility of the Board of Trustees of the Program, this report focuses on employer contributions.

Contribution rate increases are being proposed of a ½ per cent each year, commencing September 1, 2011 for 4 years to an average of 10% of pensionable earnings (from a current average of 8%). Increases in 2012 to 2014 would be effective January 1st. Appropriate communication to employers and employees as well as computer system changes will be required. As the existing Pension Trust Agreement currently limits the City's obligation with respect to employer contributions to the Program to a maximum of an average of 8% of pensionable earnings, this increase would require the approval of City Council and a double majority of the Signatory Unions. It is the City's understanding that double majority approval from the signatory unions has been received.

Western Compensation & Benefits Consultants prepared a comparative analysis of major Canadian Municipal Pension Plans and major Manitoba Pension Plans. The results of the analysis indicate that average contribution rates for pension benefits in 2010 were as follows:

	Average Contribution Rates (2010)	
	Employees	**Employers**
Winnipeg (excluding disability cost of 1% for both employees and employers)	7.0%	7.0%
Major Canadian municipal pension plans	8.4%	9.0%
Major Manitoba pension plans	6.8%	9.1%

Several of the pension plans have scheduled further increases in employee and employer contributions over the next three years or are in the process of reviewing their contribution rates.

Employer contributions to the Program form part of the overall compensation package for employees. Any increase in employer contributions approved by Council should be considered as a form of additional compensation during labour negotiations and collective bargaining.

The financial implications of the proposed increase in employer contributions are outlined in the following tables. A portion of the employer contributions have been funded through the surplus in the City Account in the Program since 2000. From 2000 to 2010, $167 million of the surplus in the Program was used to benefit the General Revenue Fund, either by subsidizing employer contributions from this Account or from the initial refund approved by Revenue Canada. It is anticipated that the City Account balance may be drawn down in the future and that the total cost of the contributions will be required from the operating budget. The first table outlines projected costs with the existing contribution rates, the second table outlines projected costs with the proposed rates, the third table highlights the incremental costs of the proposal, and the fourth table provides a breakdown of this incremental cost between the General Revenue Fund and the Water and Waste Utilities Funds. It has been recommended above that the required budget adjustments be offset by the surplus balance in the City Account. It is estimated under current conditions that the balance in the account will be available to offset the impact of these adjustments for 7 years.

Table 1 - Existing Contribution Rates (dollars in millions)

Year	Existing Contribution Rates	Projected Total Cost with Existing Contribution Rates	Year over Year Increase in Total Cost (Existing Rates)	Less Portion funded from City Account In Program	Net Cost in Operating Budgets	Year over Year Increase in Net Cost
2010	8.00%	30.183		(8.405)	21.778	
2011	8.00%	31.066	0.883	(8.386)	22.680	0.902
2012	8.00%	32.154	1.088	(8.366)	23.788	1.108
2013	8.00%	32.797	0.643	(7.634)	25.163	1.375
2014	8.00%	33.453	0.656	(7.268)	26.185	1.022

Assumptions: Cost projections in the tables are based on the salary and benefit amounts in the 2010 Adopted Budget and the 2011 and 2012 financial projections included in the 2010 Adopted Budget, with an estimated 2% salary increase in each of 2013 and 2014. The amounts stated above as the portion funded from the City account in the program are based on a recent letter from the actuary. Further, these amounts may require future revision to reflect use of the City Account to offset increased contributions recommended in this report.

Table 2 – Proposed Contribution Rates (dollars in millions)

Year	Proposed Contribution Rates	Projected Total Cost with Proposed Contribution Rates	Year over Year Increase in Total Cost (Proposed Rates)	Less Portion funded from City Account In Program	Net Cost in Operating Budgets	Year over Year Increase in Net Cost
2010	8.00%	30.183		(8.405)	21.778	
2011	**8.50%**	31.713	1.530	(8.386)	23.327	1.549
2012	**9.00%**	36.173	4.460	(8.366)	27.807	4.480
2013	**9.50%**	38.946	2.773	(7.634)	31.312	3.505
2014	**10.00%**	41.816	2.870	(7.268)	34.548	3.236

Note: The proposed contribution rate increase for 2011 is effective September 1, 2011. Rate increases for 2012 to 2014 are effective January 1st of each year.

Table 3 – Incremental Costs - Budget Adjustment Required (dollars in millions)

Year	Net Cost in Operating Budgets (Existing Rates)	Net Cost in Operating Budgets (Proposed Rates)	Increase	Less Provincial Cost-Sharing	Budget Adjustment Required	Offset by City Account	Net Budget Adjustments
2010	21.778	21.778	-	-	-	-	-
2011	22.680	23.327	0.647	.053	0.594	0.594	0
2012	23.788	27.807	4.019	.330	3.689	3.689	0
2013	25.163	31.312	6.149	.505	5.644	5.644	0
2014	26.185	34.548	8.363	.686	7.677	7.677	0

Table 4 – Breakdown of Budget Adjustment by Fund (dollars in millions)

Year	General Revenue Fund	Water and Waste Utility Funds	Total	Offset by City Account	Net Budget Adjustments
2011	0.512	0.082	0.594	0.594	0
2012	3.182	0.507	3.689	3.689	0
2013	4.868	0.776	5.644	5.644	0
2014	6.622	1.055	7.677	7.677	0

Note: The General Revenue Fund figures include increased costs flowing to this fund from Transit and Municipal Accommodations.

Even if contributions are increased to an average of 10%, benefit changes will be required to the Program to ensure sustainability.

Any increase in contribution rates will also impact employees, as contributions are matched. The individual dollar impact to employees will be dependent upon individual salary levels. Employee pension contributions are tax-deductible.

Any increase in contribution rates will also impact the other employers in this multi-employer plan as they will also be required to increase contributions to an average of 10% over the 4-year period, as will their employees. The other employers include Riverview Health Centre,

Manitoba Hydro (for former Winnipeg Hydro employees), Winnipeg Convention Centre, the Assiniboine Park Conservancy, and some smaller groups. Any decisions of the City concerning contribution rates are binding on the other employers participating in the Program.

Should contribution levels be increased as proposed, changes will be required to the Pension Trust Agreement between the City and the Signatory Unions.

HISTORY

On February 23, 2000, Council approved Recommendations to Restructure the City of Winnipeg Employee Benefits Program. These recommendations include direction in terms of the use of the City Account in the plan permitting reductions to the City Account determined as follows:

- The reduction in contributions is 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.

It has been recommended above that the City amend its policy to permit further reductions in the City account equal to the amount of budget adjustments required to increase contributions from an average of 8% to 10%.

On November 25, 2009, Council approved an increase in employer contributions to the Winnipeg Civic Employees' Benefits Program to an average of 8% of pensionable earnings, effective January 1, 2010 (up from an average of 6.7%).

FINANCIAL IMPACT

Financial Impact Statement

Date: May 30, 2011

Project Name: **The Winnipeg Civic Employees' Benefits Program - Contribution Rates**

First year of Program 2011

	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	$ 31.713	$ 36.173	$ 38.946	$ 41.816	$ 42.652
Less: Incremental Revenue/Recovery	9.033	$ 12.385	$ 13.783	$ 15.631	$ 15.631
Net Cost/(Benefit)	$ 22.680	$ 23.788	$ 25.163	$ 26.185	$ 27.021
Less: Existing Budget Amounts	23.274	$ 27.477	$ 30.807	$ 33.862	$ 34.698
Net Budget Adjustment Required	$ (0.594)	$ (3.689)	$ (5.644)	$ (7.677)	$ (7.677)

Additional Comments: Budgets for 2012 and subsequent years have not yet been approved. However they include the additional costs relating to Recommendation 1. The impact on the tax supported budget 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, the impact of Recommendation 2 and the availability of funds in the City Account in the Program. Also included in the Incremental Revenue/Recovery is estimated cost sharing from the Province. Net budget recoveries are anticipated reflecting additional use of the City Account balance. The numbers noted above are in millions and include tax supported and utility operations and are based on total employer contributions at an average of 8.5% effective September 1, 2011, 9% effective January 1, 2012, 9.5% effective January 1, 2013, and 10% effective January 1, 2014. An increase of 2% in salaries has been assumed for 2015 which impacts estimated pension costs.

Original signed by R. Abeysekera

R. Abeysekera, Campus Controller

CONSULTATION

In preparing this Report there was consultation with:

Legal Services Department

SUBMITTED BY

Department: Corporate Finance
Division: City Treasurer's Division
Prepared by: Jo-Anne Ferrier, City Treasurer and Mike Ruta, CFO
Date: July 7, 2011
File No.