Agenda - Council – February 27, 2013

Report - Executive Policy Committee – February 22, 2013

Item No. 6 Winnipeg Police Pension Plan

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On February 22, 2013, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submits the following to Council:

1. That the following be approved:

    A. Issuance of the initial letter of credit to the Winnipeg Police Pension Plan ("the Plan"), estimated at $24,145,105 in 2013 with the final amount to be determined based on the results of the December 31, 2012 actuarial valuation of the Plan.

    B. That the Chief Financial Officer be delegated the authority to determine the final amounts, timing, terms, and process for the initial letter of credit based on legal and actuarial requirements.

2. That in the event an annual Council approval is not obtained on or before the date that falls 120 days prior to the date necessary to meet all obligations under the pension benefits legislation as determined by the Chief Financial Officer in consultation with the actuary, that the Chief Financial Officer be delegated the authority to issue the required letter of credit for such year and determine final amounts, timing, terms, and process for such letter of credit based on legal and actuarial requirements.

3. That the Chief Financial Officer report annually to Council on the City's projected future commitments under any letters of credit issued pursuant to these recommendations.

4. That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.

Report - Executive Policy Committee – February 22, 2013

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On February 22, 2013, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: **Winnipeg Police Pension Plan**

Critical Path: **Executive Policy Committee, and Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Ruta, CFO	M. Ruta, CFO	Mike Ruta, CFO	D Joshi COO

RECOMMENDATIONS

1. That Council approve the following:

   a) Issuance of the initial letter of credit to the Winnipeg Police Pension Plan ("the Plan"), estimated at $24,145,105 in 2013 with the final amount to be determined based on the results of the December 31, 2012 actuarial valuation of the Plan.

   b) That the Chief Financial Officer be delegated the authority to determine the final amounts, timing, terms, and process for the initial letter of credit based on legal and actuarial requirements.

2. In the event that an annual Council approval is not obtained on or before the date that falls 120 days prior to the date necessary to meet all obligations under the pension benefits legislation as determined by the Chief Financial Officer in consultation with the actuary, that the Chief Financial Officer be delegated the authority to issue the required letter of credit for such year and determine final amounts, timing, terms, and process for such letter of credit based on legal and actuarial requirements.

3. That the Chief Financial Officer report annually to Council on the City's projected future commitments under any letters of credit issued pursuant to these recommendations.

4. That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Council approval is required to obtain a letter of credit.

IMPLICATIONS OF THE RECOMMENDATIONS

On December 14, 2011, Council approved a report entitled "Winnipeg Police Plan – Solvency Exemption". Recommendation 2 of the report states that, in the event solvency exemption is not achieved (for the Plan), the City explore all options to reduce the significant financial impact related to the solvency deficiency rules and recommend a course of action for Council approval. The City was recently advised by the Winnipeg Police Pension Board, ("the Board") that solvency exemption was not achieved. In voting against solvency exemption, the members of the Plan have created a significant financial burden on the City. The City has a choice to either:

- increase its contributions to the Plan by an estimated $26 million each year for five years (final amounts are subject to actuarial calculation as part of the valuation of the Plan as at December 31, 2012 and could differ materially), or

- obtain a letter of credit of sufficient value to offset the solvency deficiency obligations.

HISTORY

Solvency Exemption

As mentioned above, Council approved a report concerning solvency exemption on December 14, 2011.

The purpose of a solvency valuation by an actuary, 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 and wound up. This report does not include discussion regarding potential future going concern deficits.

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 seemed 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 have been very consistent with the approach taken by other large public sector pension plans in Manitoba and other major Canadian police pension plans.

On December 14, 2012, the Board issued the attached Member Notice setting out the election process for solvency exemption as outlined in legislation. If fewer than 1/3 of the active plan members and fewer than 1/3 of the pensioners and other beneficiaries had objected to the election, the Board would have elected to have the Plan exempted from the solvency provisions as requested by the City of Winnipeg. The members voted in significant numbers to reject the election.

Letter of Credit or Cash Contributions

The December 31, 2012 actuarial valuation of the Plan must be filed with the provincial Pension Commission by September 27, 2013. It is anticipated that the Plan will have a solvency deficiency that must be addressed retroactively to January 1, 2013. The City can make special payments to fund the solvency deficiency or obtain a letter of credit to secure these special payments.

The Plan's actuaries have determined that, had the Plan's December 31, 2011 actuarial valuation been filed with the Pension Commission, the Plan would have had a solvency deficiency of $120,704,000 at that date and that the yearly amount required from the City to fund that solvency deficiency would have been approximately $26 million per year for five years. This would result in a 5.65% annual property tax increase if cash payments were made. Each year the actuarial valuation would determine the amount of special payments to fully fund the Plan on a solvency basis. This approach would create significant financial hardship to the City and its residents.

Alternatively, the Pension Benefits Regulation to the Pension Benefits Act permits the City to secure the special solvency deficiency payments by obtaining a letter of credit. The amount of the letter of credit would be increased each year to reflect the accumulation of the special payments not made, plus interest.

A standby letter of credit is defined as follows:

> "A *Standby Letter of Credit* is an undertaking by a Bank to pay the beneficiary upon demand within a specified time frame subject to presentation of specified documents (i.e. a request for payment). Standby Letters of Credit are issued to support payment, when due or after default, of obligations or upon the occurrence or non-occurrence of another contingency."

The Board would hold the letter of credit on behalf of the Plan. The Plan is guaranteed by the City and there is no risk to the members of the City defaulting on its obligations under the Plan.

There is an annual cost to acquiring the letter of credit estimated at $30,281 in 2013 on a pro-rated basis increasing to potentially $413,948 in year 5 as the amount of the letter of credit increases. Interest on the required special payments will be charged at actuarial interest rates from January 1, 2013 and will be included in the letter of credit. In addition, the commitment would be shown in the notes to the City's financial statements and the City is unsure how this will impact its credit rating.

The amount of the letter of credit noted in recommendation 1 of $24,145,105 is based on the estimated amount owing at December 31, 2013 based on the 2011 valuation. The amount is less than the $26 million noted above, as the December payment is not due until January 30th of the following year (30 days after the month-end). Therefore, the letter of credit amount reflects payments due up to December 31, 2013, rather than the full amount owing estimated at $26,374,451 (based on the 2011 valuation). Once the 2012 valuation is complete, the letter of credit amount and the cost of the letter of credit will be recalculated and the letter of credit will be issued in the revised amount.

The regulation (attached) in subsection 4.18.1(5) requires the Board to file with the Pension Commission a certified copy of the letter of credit and their written statement that the letter of credit meets the regulation's requirements. The letter of credit must be maintained and renewed each year unless an actuarial valuation report and cost certificate is filed with the Pension Commission stating that the requirements for solvency funding can be met without the letter of credit. Based on the regulation, it is expected that the letter of credit would need to be obtained and a copy filed with the Pension Commission by about July 29, 2013.

Based on the two options above, the Public Service is recommending that the City obtain a letter of credit from a financial institution which will need to be renewed annually.

Further, the recommendation asks to delegate the authority to determine the final amounts, timing, terms, and process of the initial letter of credit in 2013 to the CFO based on legal and actuarial requirements.

In the event that Council approval is not obtained 120 days prior to the date necessary to meet all obligations under the pension benefits legislation as determined by the CFO in consultation with the actuary, the report asks to delegate to the CFO the authority to issue any required letter of credit for such year and determine final amounts, timing, terms, and process for such letter of credit based on legal and actuarial requirements.

If the letter of credit is not renewed in the appropriate amount and the required documents filed with the Pension Commission at least 14 days prior to the annual expiry dates, the Board must demand payment under the letter of credit from the issuing financial institution.

The Chief Financial Officer will also report annually to Council on the City's projected future commitments under any letters of credit issued pursuant to the recommendation in this report.

It should be noted that, as long as the solvency ratio (that is, the ratio of solvency assets to solvency liabilities) of the Plan remains below 0.9, the solvency deficiency must be recalculated and an actuarial valuation report filed with the Pension Commission on an annual basis. This could result in the amount of the annual special solvency deficiency payments, and hence the amounts covered by the letter of credit, being greater or less than the amounts currently projected.

Under the *Special Payments Relief Regulation, 2011,* the City has the ability to amortize the solvency deficiency over 10 years, rather than 5 years. Under this regulation, an election to extend the amortization period would require giving notice to the Plan members and having fewer than 1/3 of the members not yet receiving a pension and fewer than 1/3 of the pensioners and other beneficiaries object to the proposed election. Given the result of the solvency exemption election process, the City would likely not be able to take advantage of the 10-year amortization period permitted under the *Special Payments Relief Regulation, 2011.*

FINANCIAL IMPACT

Financial Impact Statement **Date:** February 15, 2013

First Year of Program 2013

Winnipeg Police Pension Plan

	2013	2014	2015	2016	2017
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	$ 30,281	$ 153,948	$ 237,933	$ 324,571	$ 413,948
Less: Incremental Revenue/Recovery					
Net Cost/(Benefit)	$ 30,281	$ 153,948	$ 237,933	$ 324,571	$ 413,948
Less: Existing Budget Amounts					
Net Budget Adjustment Required	$ 30,281	$ 153,948	$ 237,933	$ 324,571	$ 413,948

2013 and future year costs for the letter of credit to be determined. No amounts have been included in the City's operating budget to fund solvency deficiency payments for the Winnipeg Police Pension Plan. Actuarial estimates currently indicate that special payments of approximately $26 million annually will be required beginning in 2013 if the Plan's solvency deficiency is not secured with a letter of credit. Interest from January 1 to the time the letter of credit is issued (estimated to be about July 29, 2013) is included in and will be secured by the letter of credit. Interest is calculated at actuarial interest rates. This report does not address potential future going concern deficits. The 2013 cost of the letter of credit has been prorated. An additional appropriation will be requested for costs in 2013 to be financed by surpluses, if any, that may be identified during the year in corporate accounts. Budgets for 2014 to 2017 have not yet been approved.

original signed by
Radhika Abeysekera
Campus Controller

CONSULTATION

In preparing this report there was consultation with:

Legal Services (as to legal issues)
Don Smith, Western Compensation and Benefits Consultants

SUBMITTED BY

Department: Corporate Finance
Prepared by: M. Ruta, Chief Financial Officer
Date: February 15, 2013
File No.



WPPB-Solvency Exemption Notice 201



Pension Regulation.pdf