NOTICE FROM THE WINNIPEG POLICE PENSION BOARD
Election of Exemption from Solvency Funding

Winnipeg Police Pension Plan

December 14, 2012

PURPOSE OF COMMUNICATION

In 2010, the Government of Manitoba passed the *Solvency Exemption for Public Sector Pension Plans Regulation* (the "**Regulation**"). The *Winnipeg Police Pension Plan* (the "*Plan*") is listed as one of the public sector pension plans eligible to apply for solvency exemption under the **Regulation**. The **Regulation** permits a listed public sector pension plan to be exempt from the solvency provisions and transfer deficiency provisions of the Manitoba *Pension Benefits Act* and *Pension Benefits Regulation* (the "**PBA**").

At a meeting of City Council in December 2011, the City of Winnipeg requested the *Winnipeg 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 **PBA**, in accordance with the procedures outlined in the **Regulation**.

This notice is being given by the *Winnipeg Police Pension Board* (the "*Board*"), as administrator of the *Plan*, at the request of the City of Winnipeg, in accordance with the **Regulation**. The **Regulation** requires the plan administrator to comply with the employer's request to give notice and make election of exemption from the solvency provisions and the transfer deficiency provisions of the **PBA** provided that the necessary conditions are met (see further details under *Election Process*).

This notice is directed to all *Plan* members and each bargaining agent representing *Plan* members, to all other beneficiaries entitled to benefits under the *Plan*, and to the City of Winnipeg as the employer.

BACKGROUND

The *Board* is required to submit, at least every three years, an actuarial valuation report to the Manitoba Pension Commission (the "**Commission**") to demonstrate whether there are adequate funds in the *Plan* to pay pension benefits earned to date by employees and retirees (including pensioners, survivor beneficiaries and deferred members).

The actuarial valuation must be made according to two different criteria:

- On a **Going-Concern Basis**, which assumes the *Plan* continues to exist into the future
- On a **Solvency Basis**, which reflects a hypothetical *Plan* wind-up on the valuation date

(See *Definitions* for more detail.)

Full adequacy of funding is achieved if the ratio of the assets of the *Plan* to the liabilities of the *Plan* (for benefits earned to date) is 100% on both bases.

DEFINITIONS

Going-Concern Basis: A valuation performed on this basis assumes the pension plan will continue to exist into the future. Members are assumed to continue to earn pension benefits for future service, and it is assumed contributions will continue to be made to the plan.

Solvency Basis: A valuation performed on this basis assumes that the pension plan is terminated and wound up as of the valuation date. Under this scenario, members no longer earn any further pension benefits. Rather, it is assumed that pension benefits already earned are paid out to the members either through the purchase of lifetime annuities or through lump sum payments or transfers.

PBA: The Manitoba *Pension Benefits Act* (and *Pension Benefits Regulation*) (PBA) is the legislation that prescribes the minimum funding requirements for pension plans in Manitoba.

Regulation: The *Solvency Exemption for Public Sector Pension Plans Regulation*, under which certain listed public sector pension plans in Manitoba may elect to be exempt from the solvency provisions and the transfer deficiency provisions of the PBA.

Commission: The Manitoba Pension Commission is the provincial government body responsible for regulating pension plans under the PBA.

Transfer Deficiency: The portion of a lump sum benefit that can be held back for up to five years if the pension plan has a solvency deficiency.

The latest actuarial valuation report on the *Plan* that was filed with the **Commission** was prepared as at December 31, 2009 and revealed the following results:

- **Going-Concern results**: The going concern funded ratio was 106.8% (including the Plan Members' Account) as at December 31, 2009 based on the value of assets which smooths investment gains and losses over five years. In other words, the actuarial value of assets exceeded the *Plan's* actuarial liabilities by 6.8% on a going-concern basis. The *Plan* continues to be fully funded on a **going concern** basis.
- **Solvency results**: The solvency ratio was 108.8% as at December 31, 2009 based on the value of assets which smooths investment gains and losses over five years. Because interest rates are at historically low levels, the solvency ratio calculated as of a current date would be less than 100%.

CONTRIBUTIONS TO THE PLAN

Under the *Winnipeg Police Pension Plan By-law*, the City of Winnipeg is required to contribute the following to the *Plan*:

(a) amounts matching the police employees' contributions of 8% of pensionable earnings,

(b) the balance of the actuarial cost of the non-indexed benefits accruing under the *Plan* in excess of the 16% of pensionable earnings plus 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 under the terms of the **PBA** to liquidate an unfunded liability or solvency deficiency.

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 financed from the Contribution Stabilization Reserve within the *Plan*. However, beginning May 2012, the City's contributions increased to 14.07% (from 8%) of pensionable earnings to meet the requirements of the **PBA** (which restricts the use of actuarial surplus when the level of surplus is below 5% of the *Plan's* solvency liabilities). This action has increased the City's financial contributions from approximately $10.6 million to approximately $18.6 million per year.

The **PBA** requires solvency deficiencies disclosed in a filed actuarial valuation report to be funded by special payments over not more than five years. The last filed actuarial valuation report was as at December 31, 2009, so the next required filing date will be December 31, 2012. In the absence of a solvency exemption, it is expected that the City of Winnipeg would be required to make significant special payments in respect of a solvency deficiency, in addition to its regular contributions to the *Plan*, commencing in 2013.

NOTICE OF SOLVENCY EXEMPTION ELECTION

Further to the request of the City of Winnipeg, the Board must proceed to elect to have the *Plan* exempted from the **solvency** provisions and **transfer deficiency** provisions of the **PBA**, provided that the necessary conditions are met (see further details under *Election Process*).

CITY OF WINNIPEG'S REASONS FOR SOLVENCY EXEMPTION REQUEST

The City of Winnipeg's reasons for making the request for solvency exemption are those set out in its notification to the *Board*, and are as follows:

- The significant financial burden to the City of Winnipeg of solvency deficiency payments,
- The hypothetical nature of the solvency valuation which assumes the *Plan* termination and settlement of all *Plan* obligations at a proposed date,
- 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
- 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.

EFFECT OF PROPOSED ELECTION OF SOLVENCY EXEMPTION

If the *Plan* is exempt from the **solvency** provisions and **transfer deficiency** provisions of the **PBA**, the City of Winnipeg would not be required to make special payments in respect of a solvency deficiency (as outlined earlier, the **solvency basis** reflects a hypothetical plan termination and wind-up), but would continue to be required to make special payments in the event of an unfunded liability on a **going concern basis** (i.e., which assumes the *Plan* will continue to exist into the future).

The *Plan*'s Actuary will continue to calculate the *Plan*'s solvency position and include this in the actuarial valuation report that the *Board* files with the Manitoba Pension Commission at least every three years.

Any amendment to the *Plan* that increases or improves pension benefits will not be allowed if the amendment would have the effect of reducing the *Plan*'s solvency ratio below 90%.

The *Plan* would not be required to withhold "transfer deficiencies" from any lump sum benefit payments to members or their beneficiaries.

In the event of the termination or winding up of the *Plan*, the City would be required to fund any solvency deficiency that exists at that time in accordance with the **PBA**.

POTENTIAL EFFECT ON MEMBER BENEFITS

Under the *Winnipeg Police Pension By-law*, the City of Winnipeg guarantees the accrued non-indexed benefits under the *Plan*, and must finance cost-of-living adjustments (COLA) at the minimum levels specified in the By-law. A solvency exemption will not affect these guaranteed non-indexed accrued benefits.

The *Board* has commissioned actuarial projections that indicate the possibility of a higher level of COLA if the City were required to make special payments into the *Plan* in respect of a solvency deficiency. However, it is impossible to predict, with any certainty, the effect of a solvency exemption on the level of future COLA benefits for the following reasons:

- The absence of a solvency exemption will not necessarily lead to the City of Winnipeg making special payments into the *Plan*. The **PBA** would allow the City to provide a Letter of Credit from a financial institution to secure any solvency deficiency payments in lieu of directly making the special payments into the Pension Fund. Consequently, the resulting level of COLA may be no different than if the *Plan* was exempt from solvency funding.
- The *Board* is required to prudently manage the *Plan* into the future. This includes the ongoing selection of appropriate going-concern actuarial assumptions, which could result in the level of COLA being no higher than would otherwise occur if only going-concern funding is in place.
- Actuarial projections are based on assumptions about the future, which, if not borne out, will lead to different outcomes.
- The actuarial projections assumed that the terms and conditions of the *Winnipeg Police Pension By-law* will remain unchanged in the future.

ELECTION PROCESS

In accordance with the *Solvency Exemption for Public Sector Pension Plans Regulation*, the *Board* must elect that the *Plan* be exempted from the solvency provisions and transfer deficiency provisions of the PBA if fewer than 1/3 of the active members of the *Plan* and fewer than 1/3 of the retired members and other beneficiaries entitled to benefits under the *Plan* object to the proposed election.

You may object to the proposal to elect to have the *Plan* exempted from the solvency provisions and the transfer deficiency provisions of the PBA by sending an objection, in writing, by January 25, 2013 to the Administrator of the *Winnipeg Police Pension Plan* at the following address:

The Winnipeg Civic Employees' Benefits Program
5-317 Donald Street
Winnipeg, Manitoba
R3B 2H6

Please note that the consent of the **Commission** is not required for the *Board* to make this election. If fewer than 1/3 of the active members and fewer than 1/3 of the retired members and other beneficiaries object, in writing, by **January 25, 2013** to this election, the **Regulation** requires that the *Board* must elect to have the *Plan* exempted from the **solvency** provisions and the **transfer deficiency** provisions of the **PBA**. In accordance with the **Regulation**, this election is irrevocable (that is, there is no provision to reverse this decision).

If you have any comments or questions relative to the proposed **solvency** exemption election, please contact *The Winnipeg Civic Employees' Benefits Program*, within 30 days of receipt of this notice, by calling 204-986-2516 or in writing to the address above.