Agenda - Council – March 26, 2014

Report - Executive Policy Committee – March 19, 2014

Item No. 6 The City of Winnipeg Employees' Group Life Insurance Plans – Investment Management

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On March 19, 2014, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That subject to formal appointment by the Board of Trustees of The Winnipeg Civic Employees' Benefits Program and the Winnipeg Police Pension Board (the "Boards"), the City be authorized, through its Manager of Financial Services in the Corporate Finance Department, to act as investment manager for the Civic Employees' Group Life Insurance Plan and the Police Employees' Group Life Insurance Plan (the "Plans").

2. That authority be delegated to the Chief Administrative Officer to negotiate and approve any and all documents and agreements relating to the investment management by the Corporate Finance Department of the Plans.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Agenda - Council – March 26, 2014

Report - Executive Policy Committee – March 19, 2014

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On March 19, 2014, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

Further, on March 19, 2014, David Sanders submitted a communication dated March 12, 2014 in opposition to the City of Winnipeg Employees' Group Life Insurance Plans – Investment Management.

ADMINISTRATIVE REPORT

Title: **The City of Winnipeg Employees' Group Life Insurance Plans – Investment Management**

Critical Path: **Executive Policy Committee (EPC), Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
Mike Ruta	Mike Ruta	Mike Ruta	D. Joshi A/CAO

RECOMMENDATIONS

1. That subject to formal appointment by the Board of Trustees of The Winnipeg Civic Employees' Benefits Program and the Winnipeg Police Pension Board (the "Boards"), Council authorize the City, through its Manager of Financial Services in the Corporate Finance Department, to act as investment manager for the Civic Employees' Group Life Insurance Plan and the Police Employees' Group Life Insurance Plan (the "Plans");

2. That Council delegate authority to the Chief Administrative Officer to negotiate and approve any and all documents and agreements relating to the investment management by the Corporate Finance Department of the Plans;

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Council approval is required to authorize the Corporate Finance Department to act as investment manager for the Plans and to enter into all agreements and documents related thereto.

IMPLICATIONS OF THE RECOMMENDATIONS

To alleviate concerns with respect to the tax status of the Plans, with the agreement of the Plan's administrator, the Board of Trustees of the Winnipeg Civic Employees' Benefits Program and the Winnipeg Police Pension Board, the City through its Manager of Financial Services in Corporate

Finance will assume responsibility for investment of the Plans' assets in accordance with the parameters set out in the Plans' Statement of Investment Policies and Procedures.

The City will be required to enter into an investment management agreement with the Board which sets out the terms and conditions pursuant to which the Corporate Finance Department will perform its role as investment manager.

Currently, the By-laws (as defined below) provide that Board Members and Investment Committee Members are indemnified by the respective Insurance Funds with respect to claims, liabilities, charges and expenses sustained or incurred by such Board Member or Investment Committee Member in the exercise of their powers and duties, with certain exceptions for claims, liabilities, charges and expenses sustained or incurred as a result of the gross negligence, willful misconduct, or lack of good faith of such Board Member or Investment Committee Member (see s.9 of each By-law).

However, the Boards have requested that the City provide additional indemnification to a greater class of persons (Boards, Board Members, Investment Committee Members, and their respective officers, employees or representatives) from any claims against them related to the City's performance of investment management services pursuant to the investment management agreement, or from any claims related to any loss or diminution of value of the assets to be managed by the City, with certain exceptions for claims, liabilities, charges and expenses sustained or incurred as a result of the gross negligence, willful misconduct or lack of good faith of such Board, Board Member, Investment Committee Member, or other listed person as identified above.

While the additional indemnification provisions proposed by the Board are the reverse of what would typically be found in an investment management agreement (i.e. typically the Boards would indemnify the investment manager), in this circumstance the Board's proposal does reflect the historical structure of the Plans and the historical roles of the City and the Boards. Therefore, in negotiating the terms and conditions of the investment management agreement, the Chief Administrative Officer will consider the Boards' proposal and ensure that any additional indemnification to be provided by the City to the Boards in the investment management agreement is reasonable and in the best interests of the City, as determined by the Chief Financial Officer and the Director of Legal Services & City Solicitor.

HISTORY

The Boards have been delegated administrative and oversight responsibility for the Plans by virtue of By-laws 5644/91 (Civic Employees' Group Life Insurance Plan) and 5643/91 (Police Employees' Group Life Insurance Plan) (the "By-laws"). The Board of Trustees of The Winnipeg Civic Employees' Benefits Program (the Administrator) administers the Program on behalf of the City and the Boards. However, the ultimate responsibility for the Plans lies with the Plans' sponsor, the City.

In December, 2007, the Administrator advised the City that there may be issues relating to tax status of the Plans. At the time, Fillmore Riley and Western Compensation & Benefits Consultants (WCBC), actuaries for the Plans, were engaged to review the taxation issues and potential remedies relating to the issues identified. In 2013 the Plans' auditors, Deloitte, were also engaged to assist in reviewing the taxation issues and potential remedies and restructuring alternatives.

Because there have been questions concerning the tax status of the Plan, concerns have been expressed with investments in certain funds. To address these concerns, a significant portion of the Plans' investments have been liquidated and are being held in short term investments. This has

resulted in an asset mix that is not in accordance with the Plans' Statement of Investment Policies and Procedures. As a transitional measure toward resolving this issue and to place the Plan in compliance with the Statement of Investment Policies and Procedures, a document was prepared by WCBC recommending that the Plans' funds be reinvested and held under a custodial arrangement that the City has entered into.

Paragraph 5.1 (2) of By-law 5644/91 and Paragraph 5 (4) of By-law 5643/91 permit the Boards to appoint investment managers for the Plan. In this regard, it is anticipated that the City and Boards will enter into an agreement under which the City will manage the Plans' investments using index-type funds in accordance with an agreed upon asset mix. The agreement will require in part that the City open separate custodial accounts with RBC Investor Services to hold the assets of the Plans. It is anticipated that the Boards will appoint the Financial Services Division of Corporate Finance to manage the investments. Both Boards have been advised concerning the issues under consideration. It is also anticipated that the Boards will otherwise continue their general oversight of the Plans' investments.

Restructuring discussions are ongoing with the objective of addressing the issues of taxability through a City vehicle which will be tax exempt. Once restructuring discussions have been finalized and the Boards are in agreement, the Public Service will bring forward a report for Council's consideration in terms of recommended options to address the issues identified.

FINANCIAL IMPACT

Financial Impact Statement **Date:** March 14, 2014

Project Name: **First Year of Program** **2014**

The City of Winnipeg Employees' Group Life Insurance Plans – Investment Management

	2014	2015	2016	2017	2018
Capital					
Capital Expenditures Required					
Less: Existing Budgeted Costs					
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal					
Debt - External					
Grants					
Reserves, Equity, Surplus					
Other -					
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs					
Less: Incremental Revenue/Recovery					
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts					
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments:

There is no financial impact resulting from this report.

Original Signed by B. Heckert for:
Radhika Abeysekera
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

In preparing this report there was consultation with:

Legal Services

SUBMITTED BY

Department: Corporate Finance
Division: CFO Office
Prepared by: Mike Ruta
Date: March 12, 2014
File No.