Agenda – Council – May 27, 2015

Report - Executive Policy Committee – May 20, 2015

Item No. 2 Restructuring the City of Winnipeg Employees' Group Life Insurance Plans

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On May 20, 2015, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That pursuant to provisions in the City of Winnipeg Civic Employees' (Civic) and Police Employees' (Police) Group Insurance Plan By-Laws No. 5644/91 and 5643/91 respectively, the attached letters from the Winnipeg Civic Employees' Benefits Program (WCEBP) together with a letter from Smith Pension & Actuarial Consultants with respect to the proposed restructuring of the City of Winnipeg Employees' Group Life Insurance Plans be received as information.

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

Report - Executive Policy Committee – May 20, 2015

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On May 20, 2015, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: **Restructuring the City of Winnipeg Employees' Group Life Insurance Plans**

Critical Path: Executive Policy Committee (EPC), Council

AUTHORIZATION

Author	Department Head	CFO	CAO/COO
Mike Ruta	Mike Ruta	Mike Ruta	M. Jack COO

RECOMMENDATIONS

That pursuant to provisions in the City of Winnipeg Civic Employees' (Civic) and Police Employees' (Police) Group Insurance Plan By-Laws No. 5644/91 and 5643/91 respectively, City Council receive the attached letters from the Winnipeg Civic Employees' Benefits Program (WCEBP) together with a letter from Smith Pension & Actuarial Consultants with respect to the proposed restructuring of the City of Winnipeg Employees' Group Life Insurance Plans.

REASON FOR THE REPORT

Under the caption of Amendment, Termination, Merger or Division in paragraph's 11 to 13 in the Civic by-law 5644/91 and paragraph's 10 to 12 in the Police by-law 5643/91 (extracts attached – Appendix B), any proposed amendment, modification, variation, termination, merger, consolidation or division requires the Board of each plan to submit a report to Council. Council cannot vote on the proposal until the expiration of at least one further month. In addition, Council must receive a report concerning the proposal from a Fellow of the Canadian Institute of Actuaries. The letters from the Boards and Actuary are attached as (Appendix A).

EXECUTIVE SUMMARY

The proposal is essentially an administrative change that will transition control of the group life insurance plans from the WCEBP to the City of Winnipeg. Transferring responsibility to the City will provide stronger assurance that the earnings of the insurance plans remain tax-exempt.

Costs for the administration of the plans will essentially stay the same and there are no adjustments to the benefits available to employees.

Council approval is required to effect changes to existing by-laws.

IMPLICATIONS OF THE RECOMMENDATIONS

Submission of the required attachments concludes the process to proceed with Council approval of a new by-law and incorporation to oversee the Group Insurance Plans. This will be submitted to Council for final consideration at its meeting scheduled for July 15, 2015 as required by the by-laws.

HISTORY

On September 24, 2014, Council approved the following recommendations:

1. That Council request the Province of Manitoba to pass a regulation pursuant to Subsection 212(2) of The City of Winnipeg Charter that authorizes the City to incorporate a new company (Newco) controlled by the City for the purposes of operating the Group Life Insurance Plans (Plans).
2. That subject to passage of the provincial regulation pursuant to Subsection 212(2) of The City of Winnipeg Charter, the City Solicitor / Director of Legal Services be instructed to prepare for submission to Council the governing by-law for Newco and the restructuring of the Plans, in accordance with the terms and conditions of such regulation and the City's restructuring proposal as set forth in this Report.
3. That Council delegate authority to the Chief Administrative Officer to negotiate and approve any and all documents and agreements relating to the incorporation of Newco and the restructuring of the Plans.
4. That Council approves an additional over-expenditure of up to $150,000 beyond the original amount approved by EPC on September 18, 2013 for professional services related to the incorporation of Newco and the restructuring of the Plans.
5. That in accordance with the current by-laws governing the Plans, the Public Service be instructed to obtain written reports with respect to the restructuring of the Plans from the Boards and a Fellow of the Canadian Institute of Actuaries, to be submitted to Council for consideration along with the bylaw to be submitted pursuant to Recommendation 2 hereof.
6. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Much of the history may be found in the above noted report to Council which is attached (Appendix C) for reference purposes. Since the date of this report, the following has occurred:

- On March 16, 2015, the City provided the Civic and Police Boards (the Boards) with a draft by-law together with schedules for review thereby providing notice under the existing by-laws requesting a written response from the Boards within one month of this date.

- After the Boards reviewed the draft By-law, additional amendments were proposed on advice from their legal advisors. On April 10, 2015, the City advised the Boards that it would like to extend the requirement for response by one further month from the time when the revised by-law and schedules were resubmitted.

- On April 20, 2015, the City submitted a revised by-law and schedules for review of the Boards.

- The Boards sent letters to City Council on May 5, 2015 (Appendix A) concerning the proposed restructuring. In summary the following items were highlighted in their reports to Council:
    - In June, 2014 and September, 2014 respectively, the Civic and Police Boards submitted to the City notice of their intention to resign from all aspects of responsibility for the Plans effective June 30, 2015 unless otherwise agreed upon by the Boards.
    - The Boards are not in a position to comment on the merits or the effectiveness of the proposed by-law either from a governance or taxation perspective.
    - Based on the Boards experience, they had the following observations to share with City Council:
        - The structure of the proposed Plan is complex making it more difficult to administer and operate. Communication with Plan members at a detailed level will be challenging.
        - The documents provided are silent about the taxable benefit regime which is expected to accompany the Plan structure.
        - The proposed taxable benefit regime will require detailed record keeping of contributions by individual Plan member (and by fund, as applicable) which the present system is not programmed to accommodate. Considerable time and effort will be required to build and maintain such a system.
        - The stated fiduciary responsibilities with respect to administration and investment currently included in the Civic by-law have been deleted.
        - In addition the procedure for future amendment to the propose by-law is streamlined and provides for a lower threshold for approval of changes than is currently contained in the existing by-laws.

- On May 6, 2015, the City received the attached letter (Appendix A) from Don Smith, Actuarial Consultant from Smith Pension & Actuarial Consultants. In summary, the following items were highlighted in his letter to the CFO:
    - The proposed new by-law and restated plan texts involve no change in benefits or basis for determining plan member or employer contributions.
    - While the by-law involves a change in governance structure, the new structure is intended to permit the funds continue to be exempt from tax on their investment income.
    - There will be a change in the timing and determination of taxable benefits for employees and retired members of the plans. However this will not affect the plans' benefits.
    - Provided that the Plan continues to be exempt from tax on its investment income the repeal of the existing by-laws and their replacement with the proposed new by-law will not affect the contributions required to be paid to the Plans by the city, the other participating employees and the plans' members.

- On April 28, 2015, the City convened a meeting with participating members to the Plan. In attendance at the meeting was Cy Fien, Fillmore Riley and Don Smith, Smith Pension & Actuarial Consultants attending by phone, Glenda Willis and Rob Sutherland from the WCEBP, Mike Ruta and Michael Jack from the City of Winnipeg and representatives from ATU, CUPE, MGEU, UFFW, WASPSO, WPSOA. Not in attendance were representatives from WFPSO, the Nurses Union and WPA. Attached is a copy of the

letter and attachments (Appendix C) that were sent. Changes in the proposed by-law were discussed.

- Further to a letter sent by the Acting CAO of the City on March 24, 2015, the Canada Revenue Service (CRA) replied to Cy Fien on April 27, 2013 extending tax exempt status to December 31, 2015. In this letter additional information was requested concerning the taxable benefit aspects of the City's proposal. The City will be preparing a response to these questions.

- Some of the major provisions proposed in the draft by-law and schedules (Appendix D) include:
    - As noted above the draft by-law does not change the benefits provided by either plan or the employer or the employee contributions to the Plan.
    - To ensure that the Plan remains non-taxable, the City must control the Plan through ownership of a new Municipal Corporation created under corporate legislation, The Manitoba Corporations Act, to be approved by the Province of Manitoba.
    - The City will need to transition administration of the Plan with the assistance of the staff at the WCEBP.
    - A new Board of Directors will be constituted comprised of five individuals appointed as follows:
        - One appointee of the Winnipeg Police Association appointed on behalf of the Civic Plan.
        - One appointee selected by a majority of the civic unions appointed on behalf of the Civic Plan
        - Two appointees of Council; and
        - A designated employee as defined in the City of Winnipeg Charter appointed by Council.
        - Council will be asked to rescind the existing two by-laws.
    - Following incorporation and establishment of the new Board of Directors, it will be necessary to address administrative changes affecting taxable benefits to reflect the proposal made to CRA. These changes have been communicated to the Boards of the Civic and Police pension plans and are included in previous attachments.
    - Although it was noted above that fiduciary responsibilities have been removed from the proposed by-law, they will be replaced by the duties that the Board of the new Municipal Corporation will have under corporate legislation.

- Paragraph 149(1)(d.5) of the Income Tax Act exempts from tax a corporation that is owned by a municipality in Canada provided that the corporation's "income for the period … from activities carried on outside the geographical boundaries of the municipalities does not exceed 10% of its income for the period".

- The Province has provided a draft regulation for review by the City but final approval has not yet been received.

Summary

- Incorporation of a new municipal corporation will permit the City to secure tax exempt status with respect to future income earned by the Fund. CRA has extended tax exempt

status to the end of 2015 to permit the restructuring to take full effect for purposes of addressing the taxation issue.

- There will be a new governance structure as set out above which clearly places control over the fund through the municipality.
- A transition plan will need to be negotiated with the WCEBP to facilitate administration of the Fund from WCEBP to the City.
- The issue of taxable benefits has not been resolved and will require further discussion with CRA. Until a resolution is reached, the City will continue to apply taxable benefits in the same manner.
- Council approval of the by-law will be required in July, 2015 and a separate report will be sent for consideration at that time.

FINANCIAL IMPACT

Financial Impact Statement

Date: May 11, 2015

Project Name:

Restructuring the City of Winnipeg Employees' Group Life Insurance Plans

COMMENTS:

There is no financial impact related to the recommendation of this report.

(Original signed by R. Hodges)
Ramona Hodges
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

In preparing this report there was consultation with:

Legal Services
Corporate Support Services
Filmore Riley
Smith Pension & Actuarial Consultants

OURWINNIPEG POLICY ALIGNMENT

N/A

SUBMITTED BY

Department: Corporate Finance
Division: CFO Office
Prepared by: Mike Ruta
Date: May 11, 2015

APPENDIX A



Appendix A - Letters from Brds & Actuary.

APPENDIX B



Appendix B - Amendment, Termina

APPENDIX C



Appendix C - Report to Council.pdf

APPENDIX D



By-law & Schedules A-C.pdf