Winnipeg Police Pension Plan

POTENTIAL CHANGES TO PLAN PROVISIONS

(Including Actuarial Costing of Financial Implications)

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Introduction

This report has been prepared in the context of the following objectives set out by the City with respect to the Winnipeg Police Pension Plan:

- Equal sharing of cost of Plan
- Limit City contributions to a maximum of 11½% of salaries (excluding overtime)
- No City and taxpayer exposure to unfunded liabilities.

This report discusses potential changes to the Plan that could be considered in order to meet these objectives.

This report includes information concerning the estimated financial implications of each of the potential changes that would impact on the cost of the Plan.

In general, the potential changes affect the benefits and contributions for future service only. It is anticipated that the existing Plan provisions would continue to apply with respect to pension benefits earned for all service up to the date the changes are implemented.

Consequently, the potential changes would not affect the Plan's accrued liabilities; rather, they will affect the current service cost of the Plan for service after the effective date of the changes.

The most recently reported actuarial position of the Plan, as at December 31, 2018, can be summarized as follows:

Going Concern Position

Market value of assets – General Component of Main Account	$1,460,124,000
Actuarial smoothing adjustment	(10,577,000)
Actuarial value of assets – General Component of Main Account	$1,449,547,000
Going concern actuarial liabilities	1,449,547,000
Actuarial surplus	$0
Contribution Stabilization Reserve	$53,414,000
Plan Members' Account	13,646,000
City Account	305,000
Total reserves	$ 67,365,000
Sustainable level of cost-of-living adjustments to pensions (COLAs)	55.4% of CPI increases

Solvency Position

Market value of assets (including Contribution Stabilization Reserve and City Account, and net of plan termination expenses)	$1,511,538,000
Solvency liabilities	1,531,243,000
Solvency deficiency (including letter of credit)	($ 19,705,000)

Current Service Cost

Employee contributions	8.00% of pensionable earnings
City share of cost	18.48% of pensionable earnings
Total	26.48% of pensionable earnings

(Note that in accordance with the Plan's funding requirements, these figures include 2.00% of pensionable earnings in respect of COLAs)

1. Structure of Plan

Existing Provision Conventional defined benefit pension plan, with pension indexing contingent on level of plan funding.

Potential Change Qualify as a "multi-unit pension plan" ("MUPP") under *Pension Benefits Act*.

Comments The Winnipeg Civic Employees' Pension Plan is a MUPP.

As an MUPP:

- the City's liability for funding the plan would be limited to the contribution rates contractually agreed to; and
- benefits can be reduced if necessary to maintain the solvency of the plan, subject to the approval of the Superintendent of Pensions.

To qualify as an MUPP:

- the plan must include employees covered by two or more collective agreements or have two or more participating employers;
- the plan must be administered by a board of trustees with at least as many member trustees (including one representing non-active members) as employer trustees; and
- be designated as an MUPP by the Superintendent of Pensions.

2. Pensionable earnings

Existing Provision Includes overtime.

Potential Change Exclude overtime.

Comments

Civic plan does not include overtime in pensionable earnings.

Overtime earnings is not an appropriate basis for determining retirement pensions.

Including overtime creates inequities between members depending on the availability and prevalence of overtime during a member's final 5 years.

Also, consideration should be given to whether there are any other components of "remuneration" that should not be included in pensionable earnings.

Estimated Financial Implications

($000s)	Including Overtime	Excluding Overtime	Change
Projected 2019 pensionable earnings	$167,672	$160,279	-$7,393
Effect on current service cost		-0.1% of pensionable earnings	
Projected 2019 contributions:			
Employees (at 8%)	$13,414	$12,822	-$592
City (at 18.48%)	30,986		
City (at 18.38%)		29,459	-1,527

Notes:
1. Overtime is assumed to be 4.41% of existing pensionable earnings (based on 2018 actuarial valuation data).
2. Reduction in current service cost is due to a higher proportion of pensionable earnings excluding overtime being subject to the lower (1.4%) pension accrual rate.

3. Employee contributions

(a) Rate

Existing Provision 8% of pensionable earnings.

Potential Change Increase by 0.7% per year over 5 years to 11.5%.

Comments Consistent with objective of equal cost-sharing with employee/employer contribution rates of 11.5%/11.5%.

(b) Integration with CPP

Existing Provision No integration.

Potential Change Phase-in lower contribution rate increases on earnings up to YMPE and higher contribution rate increases on earnings over YMPE (with overall average of 11.5% after 5 years).

Comments Existing employee contribution provision is not equitable – lower income earners subsidize higher income earners, due to lower pension accrual rate (1.4% per year) on earnings up to YMPE.

(c) Maximum contributory period

Existing Provision 40 years.

Potential Change Eliminate maximum.

Comments Existing provision serves no practical purpose.

4. City contributions

Existing Provision

Balance of current service cost (including 2% for pension indexing)

+ special payments to liquidate any unfunded going concern liabilities

+ special payments to liquidate any solvency deficiencies.

Minimum rate is 8% of pensionable earnings (matching employee contributions).

Potential Change

Reduce to 14.3% of earnings in 1st year, then by a further 0.7% per year over the next 4 years, to an ultimate rate of 11.5%.

Comments

Currently, City is contributing 18.48% of earnings based on the results of the December 31, 2018 actuarial valuation.

Change would cap total employee and employer contributions at 23% of earnings.

(During the phase-in period, the City's contribution rate would be 23% minus the employee contribution rate.)

Estimated Financial Implications

Projected City contributions (assuming changes implemented effective January 1, 2020):

Year	Rate	Projected Contributions ($000s)
2019	18.48%	$30,986
2020	14.3%	23,610
2021	13.6%	23,019
2022	12.9%	22,544
2023	12.2%	22,014
2024	11.5%	21,425

Note: Pensionable earnings for 2019 are assumed to include overtime and, for years after 2019, are assumed to exclude overtime and increase at the rate of 2.5% per year until 2022 and 3.25% thereafter.

5. Retirement provisions

Existing Provision

Retirement (i.e. pension commencement) permitted after earlier of age 50 or 20 years of credited service.

Potential Change

For new employees, pension commencement no earlier than age 55, or age 50 with 25 years of credited service.

Retain existing provisions for existing employees.

Alternatively, consider phasing out existing provisions by limiting to, say, employees currently over age 45 or with at least 15 years of credited service as at the date of change.

Comments

Early retirement provisions are one of the most expensive provisions of the existing plan.

Most police employees today typically do not retire, but continue working in another career.

Increasing life expectancies, without change in the retirement provisions, can result in members receiving pensions for more years than they worked.

Estimated Financial Implications

Effect on current service cost:

(a) If existing provisions continue to apply to existing employees: no immediate effect; -0.2% of pensionable earnings, phased in over up to 30 years.

(b) If existing provisions continue to apply to employees currently over age 45 or with at least 15 years of credited service: -0.1% of pensionable earnings initially, increasing to -0.2% of pensionable earnings after 15 years.

(Note: This assumes that there is no early retirement reduction applied under the new retirement provisions.)

6. Lifetime pension formula

Existing Provision

(1.4% of best 5-year average CPP earnings + 2.0% of best 5-year average non-CPP earnings)
x years of credited service.

Potential Change

No change.

Comments

Civic plan formula uses 1.5% rather than 1.4%.

7. Bridge pension formula

Existing Provision

0.6% of best 5-year average CPP earnings x years of credited service, payable until age 65.

(to increase the pension payable until age 65 to 2.0% of best 5-year average earnings x years of credited service)

Potential Change

Could limit bridge benefits for credited service after date of change to the period after age 55 or age + service totalling 80 years.

No change to bridge benefits for credited service before the date of change.

Consideration could be given to eliminating the bridge benefit entirely for credited service after the date of change.

Comments

The bridge benefit is an additional incentive to retire early.

It may be noted that the CPP pension is available (with reduction) at age 60, which reduces the need to provide bridge pension benefits.

Estimated Financial Implications

Effect on current service cost:

(a) if bridge benefit limited to period after age 55 or age + service totalling 80 years: -0.3% of pensionable earnings.

(b) if bridge benefit eliminated for future service: -1.6% of pensionable earnings.

8. Early retirement reduction

Existing Provision

If retirement before age 55 or 25 years of credited service, reduction is 3.6% for each year early.

Potential Change

For credited service after the date of change, the early retirement reduction could be applied to the number of years before age 60 or age 55 and age + service totalling 80 years.

No change to existing unreduced early retirement pension provisions for credited service before date of change.

Consider increasing the early retirement reduction to 4% per year (same as Civic plan).

Comments

Increasing the early retirement reduction will immediately reduce the future cost of the plan and gradually reduce the incentive for early retirement.

Estimated Financial Implications

Effect on current service cost:

(a) if early retirement reduction is 3.6% per year: -1.7% of pensionable earnings.

(b) if early retirement reduction is 4% per year: -1.8% of pensionable earnings.

9. Cost-of-living adjustments

Existing Provision Level percentage of CPI changes that can be sustained in the future for current employees' and pensioners' accrued pension benefits, based on prevailing level of COLA funding.

Potential Change No change.

Comments The decreasing level of COLA in recent years has been a concern for the existing plan. Reducing the cost of other benefits under the plan could increase the funds available for future COLAs.

10. Normal form of pension

Existing Provision

For members with a spouse or common-law partner: joint life and 66⅔% survivor pension.

For members without a spouse or common-law partner: single life pension with minimum guarantee of refund of member's contributions with interest.

Potential Change

For credited service after date of change for members with a spouse or common-law partner, reduce the member's pension by 6%, plus or minus 0.5% for each year that the spouse or partner is younger or older than the member (same as Civic plan).

No change to the normal form of pension for credited service before the date of change.

Permit the spouse or partner to waive the survivor pension, in which case the member's pension would not be reduced.

Comments

The present plan is inequitable between members with a spouse or common-law partner and those without. This change would make the plan more equitable, as well as reducing the future cost of the plan.

Estimated Financial Implications

Effect on current service cost: -1.5% of pensionable earnings.

11. Disability

Existing Provision

If member is totally disabled and has at least 15 years of credited service, an immediate disability pension is payable.

Members who are totally or partially disabled and are not receiving a disability pension can continue to contribute and accrue credited service based on the pay rate for the position regularly occupied prior to disability.

Potential Change

The immediate disability pension provision could be eliminated, as all police officers are covered by a long-term disability (LTD) insurance plan.

Employee and City contributions could be waived during a period of total disability (or reduced during partial disability).

“Assumed Earnings” while disabled could be based on the pay rate at date of disability plus increases at the pension COLA rate (same as Civic plan).

Comments

The immediate disability pension provisions of the plan have not been used for many years. (This should be confirmed.)

If contributions are waived during disability, additional credited service should not continue beyond age 60 (or cessation of LTD benefits, if earlier).

Estimated Financial Implications

No effect on current service cost, as actuarial valuations assume no incidence of disability.

12. Death before retirement

Existing Provision

If survived by a spouse or common-law partner, the spouse or partner receives a lifetime pension of 50% of member's pension based on actual credited service plus potential future credited service (but not to more than a total of 25 years of credited service).

If there are also dependent children, additional pensions of 10% per child (to a maximum of 25% if 3 or more children) are payable while the children are dependent.

If the actuarial value of the survivor pension is less than the commuted value of the member's pension, the survivor pension is increased accordingly.

The spouse or partner can elect to receive the lump sum commuted value of the survivor pension instead.

If no spouse, partner or dependent children, the lump sum commuted value of the member's pension is paid to the member's beneficiary or estate.

Potential Change

Consider:

(a) eliminating the portion of the formula relating to potential future credited service, or

(b) providing the lump sum commuted value of the member's pension in all situations.

Comments

The Civic plan does not provide survivor pensions based on potential future service.

Estimated Financial Implications

Effect on current service cost: -0.1% of pensionable earnings.

13. Termination of employment

Existing Provision

Choice between:

(a) deferred pension commencing at age 60 (or as early as age 50 on an actuarially reduced basis), or

(b) lump sum commuted value of pension.

Includes COLA for period from date of termination of employment to date of pension commencement.

Potential Change

No change.

Comments

None.