Minute No. 30
Report – Executive Policy Committee – November 12, 2019

Item No. 3 Revisions to the Winnipeg Police Pension By-law No. 126/2011

COUNCIL DECISION:

Council concurred in the recommendation of the Executive Policy Committee, as amended, and adopted the following:

1. That the amendments to the Winnipeg Police Pension By-law No. 126/2011 proposed in this report (draft amending By-law No. 86/2019 attached as Appendix 6) be enacted.

2. That savings of $14.74M from the police pension plan reforms detailed in the report Revisions to the Winnipeg Police Service Pension Plan By-law No. 126/2011 from 2020-2023 be utilized as a funding source for the Winnipeg Police Service operating budget to meet the Winnipeg Police Service Target."

3 That the police pension plan reforms be implemented effective April 1, 2020 and that the draft amending By-law No. 86/2019 be revised to reflect this effective date.

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

Report – Executive Policy Committee – November 12, 2019

DECISION MAKING HISTORY:

Moved by His Worship Mayor Bowman,
That the recommendation of the Executive Policy Committee be adopted.

In amendment,
Moved by Councillor Klein,
Seconded by (Councillor Mayes,

BE IT RESOLVED:

1. That Item 3 of the Report of the Executive Policy Committee dated November 21, 2019 be laid over for a period of 90 days.

2. That the Winnipeg Public Service be directed to meet with the appropriate representatives of the Winnipeg Police Association and the Winnipeg Police Senior Officer Association, with a clear objective of finding alternatives to reaching mutually beneficial terms that will increase pension contributions by members and discontinue pensionable overtime, including but not limited to the following examples:

    A. The cancelation of the benefit of pensionable overtime for members with 7 years or less service;

    B. Increasing the members pension contributions by 2% every year until they are equal with comparable CBA's within the City;

    C. Having the City pass a by-law that ensures we are not permitted to remove funds from the pension and direct to general revenues,

and report back to Council with an agreement within 90 days.

The amending motion moved by Councillor Klein and seconded by Councillor Mayes was put.

Councillor Klein called for the yeas and nays as follows:

Yea: Eadie, Klein, Mayes, Nason, Schreyer and Sharma 6

Nay: His Worship Mayor Bowman, Councillors Allard, Browaty, Chambers, Gillingham, Gilroy, Lukes, Orlikow, Rollins and Santos, 10

and the motion for the adoption of the motion moved by Councillor Klein and Seconded by Councillor Mayes was declared lost.

Report – Executive Policy Committee – November 12, 2019

DECISION MAKING HISTORY (continued):

In amendment,
Moved by Councillor Chambers,
Seconded by Councillor Browaty,

WHEREAS police and public safety are top priorities for Council and the residents of Winnipeg;

AND WHEREAS Council has approved significant investments in these key areas including a record level of funding for the Winnipeg Police Service in 2019, funding for a downtown safety strategy as well as a Community Safety and Crime Prevention Fund;

AND WHEREAS Winnipeg continues to implement the recommendations of the Illicit Drug Task Force that are within the City's jurisdiction;

AND WHEREAS in recognition of the critical role that the Winnipeg Police Service has in keeping our residents safe, Executive Policy Committee (EPC) recommended a 2% annual increase to the Winnipeg Police Service Operating Budget (exclusive of capital related expenses) within the multi-year balanced budget (the "Target"), which is equal to the highest increase provided to any City department;

AND WHEREAS the Winnipeg Police Service has proposed in its Budget presentation that in order to meet the Target it will be required to reduce its staff complement by 34 sworn officers and 25 cadets over the next 4 years;

AND WHEREAS the total cost savings associated with eliminating 34 sworn officers and 25 cadets is estimated by the Winnipeg Police Service to be $14.74M from 2020-2023;

AND WHEREAS a report before Council today titled Revisions to the Winnipeg Police Service Pension Plan By-law No. 126/2011 identifies a series of reforms to the police pension plan, which if approved by Council will result in total estimated savings of $32.9M from 2020-2023 net of $1.5 M annually relating to police overtime to be reinvested in Winnipeg Police Service operational budget;

AND WHEREAS a portion of these pension savings can be reinvested back into the Winnipeg Police Service operating budget to assist with the transition to a more sustainable budget for the Winnipeg Police Service, and with the final allocation to be determined by the Winnipeg Police Service, could be utilized to fully fund the cost related to the aforementioned 34 sworn officers and 25 cadets which would enable the Winnipeg Police Service to meet the Target without having to eliminate sworn officer or cadet positions;

Report – Executive Policy Committee – November 12, 2019

DECISION MAKING HISTORY (continued):

THEREFORE BE IT RESOLVED that Item 3 of the Report of the Executive Policy Committee dated November 21, 2019 be amended to add the following new recommendations:

"2. That savings of $14.74M from the police pension plan reforms detailed in the report Revisions to the Winnipeg Police Service Pension Plan By-law No. 126/2011 from 2020-2023 be utilized as a funding source for the Winnipeg Police Service operating budget to meet the Winnipeg Police Service Target."

3 That the police pension plan reforms be implemented effective April 1, 2020 and that the draft amending By-law No. 86/2019 be revised to reflect this effective date.

and the remaining recommendation be renumbered accordingly.

The amending motion moved by Councillor Chambers and seconded by Councillor Browaty was put.

Councillor Eadie called for the yeas and nays as follows:

Yea: His Worship Mayor Bowman, Councillors Allard, Browaty, Chambers, Gillingham, Gilroy, Lukes, Orlikow and Rollins. 9

Nay: Eadie, Klein, Mayes, Nason, Santos, Schreyer and Sharma, 7

and the motion for the adoption of the motion moved by Councillor Chambers and Seconded by Councillor Browaty was declared carried.

The motion for adoption of the item, as amended by the motion moved by Councillor Chambers and seconded by Councillor Browaty, was put.

Councillor Eadie called for the yeas and nays as follows:

Yea: His Worship Mayor Bowman, Councillors Allard, Browaty, Chambers, Gillingham, Gilroy, Lukes, Orlikow and Rollins. 9

Nay: Eadie, Klein, Mayes, Nason, Santos, Schreyer and Sharma, 7

and motion for adoption of the item, as amended by the motion moved by Councillor Chambers and seconded by Councillor Browaty, was put and declared carried.

Report – Executive Policy Committee – November 12, 2019

DECISION MAKING HISTORY (continued):

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On November 12, 2019, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: **Revisions to the Winnipeg Police Pension By-law No. 126/2011**

Critical Path: **Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Ruta	M. Ruta	P. Olafson	M. Ruta

EXECUTIVE SUMMARY

On December 14, 2011, Council approved a Report entitled "Winnipeg Police Plan – Solvency Exemption". Recommendation No. 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 members of the Winnipeg Police Pension Plan ("the Plan") did not approve an application for solvency exemption and to date the City has been required to pay approximately $552,000 to the Royal Bank of Canada with respect to letters of credit covering solvency deficiencies.

The Winnipeg Police Pension Plan is one of the most expensive pension plans in Canada, requiring significant financial support from the City. In this regard, the current plan offers the following:

- Overtime forms part of pensionable earnings. No other major pension plan in Canada provides this type of benefit.
- In 2019 the City's share of the cost of the Plan is 18.48% of pensionable earnings, or $31.0 million annually, as opposed to member contributions of 8% of pensionable earnings, or $13.4 million annually. Plan costs may increase based on life expectancy of its members and investment returns. City contribution requirements are disproportionately high compared to other similar pension plans. Other plans, such as the plan covering all other City employees, are based on equal employee and employer contributions.
- Early retirement provisions are expensive. For example, an officer who commences employment at age 20 may retire at age 45 with an immediate, unreduced pension. Depending on life span, the City will be obligated to fund pension payments for 40 or more extra years, while the officer may seek another career during this period.

The City has met with representatives of the Winnipeg Police Association (WPA) from October 2016 onwards to discuss proposed changes to the Plan and, while discussions have been

productive, there has been no resolution to the City's stated objectives in seeking revisions. The City's objectives relating to revisions to the Plan include:

- Equal sharing of the cost of the Plan.
- Limit City contributions to a maximum of 11.5% of salaries (excluding overtime).
- No City and taxpayer exposure to unfunded liabilities.

Because it does not appear possible to reach a joint agreement with the WPA to achieve the City's objectives, the City is proposing to adopt changes to the Plan through amendments to the Winnipeg Police Pension By-law. Once fully implemented, these changes are expected to yield savings to the City of about $12 million per year. The amendments proposed include:

- Removing overtime from pensionable earnings effective January 1, 2020 resulting in savings of about $1.5 million annually. This in turn will be contributed back to the Police budget to assist with operations.
- Increasing employee contributions to the Plan from 8% to 11.5% of salary over a five-year time frame commencing January 1, 2020, with reductions in City contributions from 18.48% to 11.5% of salaries over the same five-year period. Once fully implemented, the increase in employee contribution rates will result in savings to the City of about $5 million annually.
- Changing the early retirement provisions effective January 1, 2020 to include a reduction in pension if retirement occurs before age 55, or age 60 if service with the City is less than 20 years, and eliminating the bridge benefit (increased pension payable between retirement and age 65) for service after January 1, 2020, resulting in savings of about $5.5 million annually.

Total savings to the City and taxpayers once fully implemented will be about $12 million annually, less the amount contributed back to the Police budget.

It should be noted that none of the proposed revisions impacts the pension benefit credits earned by members for service prior to January 1, 2020.

RECOMMENDATIONS

1. Council enact the amendments to the Winnipeg Police Pension By-law No. 126/2011 proposed in this report (draft amending By-law No. 86/2019 attached as Appendix 6).

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

REASON FOR THE REPORT

Amendments to City By-laws require Council enactment.

IMPLICATIONS OF THE RECOMMENDATIONS

The recommendation will result in savings to the City of about $8 million in 2020 and over $12 million annually once completely phased in (by 2024).

HISTORY/DISCUSSION

A more detailed history concerning the Plan is set out in Appendix 1. In summary, the Plan is a defined benefit plan. The day-to-day administration of the Plan is carried out by the management and staff of The Winnipeg Civic Employees' Benefits Program under the direction of its Chief Executive Officer.

Section 14 of the Winnipeg Police Pension By-law No. 126/2011 permits City Council to amend, modify, vary or terminate the terms, conditions or provisions of the By-law as long as those changes do not adversely affect the pension benefit credits of any Plan member in respect of remuneration and service or membership in the Plan prior to the effective date of the amendment, modification, variation or termination.

On December 14, 2011, Council approved a Report entitled "Winnipeg Police Plan – Solvency Exemption". Recommendation No. 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."

At the beginning of 2013 the members of the Police Pension Plan voted in significant numbers to reject the election for solvency exemption. As a result, the City was required to obtain an Irrevocable and Unconditional Standby Letter of Credit to secure the solvency deficiency obligations to the Winnipeg Police Pension Board in trust for the Plan. The amount of the letter of credit was $35.9 million, requiring the City to pay fees of approximately $100,000 annually. Total fees paid to date approximate $552,000.

Financial Analysis

The analysis below is based on the actuarial valuation of the Plan completed by Eckler Ltd. (consulting and actuarial services) as at December 31, 2018.

- At December 31, 2018, total Plan assets were $1,517 million and its going concern liabilities were $1,464 million leaving an excess of Plan assets over going concern liabilities of $53 million.
- In 2019, the employees will contribute 8% of earnings, or about $13.4 million.
- The City's share of the current service cost of the Plan for 2019 is 18.48% of earnings, or about $31.0 million, which is 2.3 times that of the employees.
- The total cost of Plan in 2019 is 26.48% of contributory earnings totaling $44.4 million annually.
- In 2019, COLA (cost of living adjustment) for the Plan's pensioners is 55.4% of the CPI increase, compared to 2003 when COLA was 75% of CPI increases.
- Until 2012, the City benefitted from the Contribution Stabilization Reserve (CSR) within the Plan to maintain its contributions at the same rate as the Plan members at 8% of earnings.

Over the period from 2003 to 2012, the CSR declined to zero, requiring the City to increase its contribution rate from 8% to 14.07% of earnings beginning on May 6, 2012. Based on subsequent actuarial valuations, the City was required to increase its contribution rate to 15.05% of earnings in 2013 to 18.48% for 2019. Contributing to the increase in cost of the Plan is low bond yields and an increase in life expectancy of members of the Plan.

- The Plan is not in an actuarial deficiency on a going concern basis and the Plan has operated in the manner agreed to by the Unions and the City at the time it was amended on January 1, 2003. Attached in Appendix 1 is an analysis providing further detail concerning this observation.
- The City's letters of credit for the solvency deficiency commenced in 2013. Based on the results of the December 31, 2017 actuarial valuation, the letter of credit was able to be cancelled. However, at December 31, 2018, a new solvency deficiency of $19.7 million has arisen. This amount changes with each actuarial valuation and must be recalculated to determine the impact on the amount of letter of credit required. From 2014 onwards, the City has paid the following premiums to RBC to maintain the letter of credit.

2014	$142,098
2015	$101,092
2016	$ 95,121
2017	$ 98,586
Subsequent to 2017	$116,047
Total	$552,944

Plan membership and other

At December 31, 2018, Plan membership was as follows:

Contributing Members	1,432
Retired Members	1,006
Survivors	208
Other	17
Total	2,663

Service costs – 2019

Employer costs	18.44%	$31.0 million
Employee costs	8.00%	$13.4 million
Total	26.44%	$44.4 million

Valuation interest rate at December 31, 2018 – 5.25%

Analysis of other police plans

Included in Appendix 2 is a comparison prepared by Smith Pension & Actuarial Consultants as of the end of October, 2015 of Police pension plans across the country including Winnipeg, Vancouver (BC Municipal Pension Plan), Alberta (Special Forces Pension Plan), Regina, Saskatoon, Ontario (OMERS) and the RCMP. The following information is relevant to this review:

- Of the 6 other plans reviewed, only Saskatoon includes overtime unrestricted in pensionable earnings. The Regina police plan also includes overtime but pensionable earnings are capped at 110.4% of regular salary. **Winnipeg – overtime forms part of pensionable earnings.**
- Contributions by employees are higher than Winnipeg, ranging from 8.5% of earnings to 13.45% of earnings. **Winnipeg – contribution by employees is 8%.**
- Employer contributions range from 9% of earnings to 15.21% of earnings. **Winnipeg – employer contribution is 18.48%.**
- None of the other police plans are subject to solvency funding rules. **Winnipeg – is subject to solvency funding requirements.**
- Most plans have long service requirements if members retire before age 60, based on formulas such as the rule of 80, while some plans do not allow retirement before age 50. The reduction in pension benefits for early retirement is up to 5% per year. **Winnipeg – can retire with an unreduced pension with 25 years of service at any age; or can retire with 20 years of service with pension reduction of 3.6% for each year that retirement precedes 25 years of service or age 55.**
- There are also other benefits described in the attached document including survivor benefits that have more advantageous application in Winnipeg.

Options
The following options have been considered.

1. Establish a new pension plan for new employees
    - Continue the existing Plan for current members.
    - The new Plan would apply to new police employees hired after the date of formation.
    - The new Plan could take the form of a defined contribution plan or a plan similar to the Civic Employees' Benefit Program with no risk to the City in terms of future contribution increases.
    - However, in general terms, there would be minimal cost savings in the short term and it would take a full generation of, say, 30 years before the City experienced the full reductions in cost.
    - The City would continue to bear all of the financial risks (except for COLA) for the existing Plan for the future lifetime (up to 80 years) of the present members.
    - Further, the old Plan would continue with a declining payroll base which would lead to increasing cost in this Plan to meet future liability. As the duration of the current Plan would no longer be unlimited, discount rates would decline reflecting shorter term investment decisions and giving rise to increased liabilities and cost to the City.
    - Having different benefits (and hence different compensation) based on date of hire could give rise to future problems and be perceived to be inequitable.

2. Restructure the current Plan similar to the Civic Plan
    - The key difference between the Civic and Police Plans relates to cost and risk sharing. The City is not responsible for any contribution rate increases under the Civic Plan and currently contributes 10% of earnings to the Plan, equal to the members' contributions. Beginning in 2011, the contribution rates to the Civic Plan were increased from 8% by 0.5% each year for four years. Similarly, benefits were reduced because of reduced surpluses. Further, the Trustees of the Civic Plan elected to have the Plan exempted from the Province's solvency funding

requirements. The Civic Plan is currently in very good financial condition with no unfunded liabilities. Any unfunded liabilities will be resolved first by reduced benefits.

- Overtime does not constitute pensionable earnings in the Civic Plan**.**
- Retirement dates under the Civic Plan are as follows:
    - Normal retirement date is 65.
    - Unreduced early retirement after age 55 with the rule of 80 (age plus years of service) or age 60.
    - Reduced early retirement after age 50 with rule of 80, or after age 55 with less than the rule of 80.
- Overtime earnings for members of the Police Plan represent between 4% and 5% of pensionable earnings. Based on pensionable earnings of approximately $168 million in 2019, the cost savings if overtime was no longer pensionable would be approximately $1.5 million per year to the City.
- The current cost of the Police Plan is about $44.4 million per year. Net of overtime and other savings, the cost of the Plan as amended would be about $36.9 million per year. At 8% of earnings, police employees are contributing about $13.4 million per year. If police employees contributed 11.5% of earnings excluding overtime, contributions from employees would be about $18.4 million, representing an increase of $5.0 million per year, which if matched by the City would completely cover the cost of the Plan.
- It should be noted that all changes for existing employees would be made prospectively as all pension benefits for service already completed have already been earned and would be maintained.
- Changes involving the transfer of future risk to the Plan, resulting in no further financial risk to the City, would be a significant change in direction away from a defined benefit plan.

3. Maintain the current Plan but reduce the City's future costs
    - The defined benefit nature of the existing Police Pension Plan could be retained, but the City's future costs reduced significantly by a combination of:
        - employee contribution rate increases
        - elimination of overtime from pensionable earnings
        - less generous early retirement provisions, and/or
        - other benefit changes.
    - The changes would apply to all police employees (both existing and new) for service after the date of change.
    - The changes could be designed to target a desired level of future City cost (as a % of earnings).
    - The City would continue to be exposed to the risk of unfunded liabilities.

Discussions from October 2016 to date

With the assistance of the City's consulting actuary, Don Smith, Smith Pension & Actuarial Consultants, the City has met on several occasions with the WPA, and exchanged letters and presentations setting out proposed options. While all parties participated cordially, no decisions resulted from the options presented.

City objectives
The City advised the WPA that its objectives in respect of the proposed reorganization of the Plan were as follows:

- Equal sharing of the cost of the Plan.
- Limit City contributions to a maximum of 11.5% of salaries (excluding overtime).
- No City and taxpayer exposure to unfunded liabilities.

Proposed changes to the By-law
Without agreement by the WPA, the City will not be able to pursue Option 2, which would have led to the Plan being designated as a "multi-unit pension plan" (MUPP) and would have limited City and taxpayer exposure to unfunded liabilities. Instead, the City is proposing amendments to the existing by-law as follows on the basis of Option 3:

- Effective January 1, 2020, overtime will no longer form part of pensionable earnings. This change will provide immediate savings of approximately $1.5 million on an annualized basis.
- Over a four-year transition period commencing January 1, 2020, new and existing members of the Plan will increase their contributions by an average of 0.7% of salaries yearly, resulting in a contribution rates averaging 11.5% of salaries by 2024. City contributions will reduce to 14.3% of salaries in 2020, then by a further 0.7% of salaries each year until 2024, when they will match the employees' contributions averaging 11.5% of salaries. This is expected to result in savings to the City of approximately $8 million in 2020, increasing to over $12 million annually once fully implemented. It should be noted that, if Plan costs increase in future, it is intended that future service benefits under the Plan would be adjusted to maintain the combined employee and City contribution rates at a maximum of 23% of salaries.
- Effective January 1, 2020, the following changes would be made to the Plan's early retirement provisions:
    - For all new employees hired on or after January 1, 2020, pensions will commence no earlier than age 55 or age 50 with 25 years of credited service.
    - Employees over age 45 or with at least 15 years of credited service on January 1, 2020 will retain their existing retirement age and service provisions. Other existing employees would be subject to the new retirement age and service provisions.
    - The bridge benefit will be eliminated for credited service after January 1, 2020.
    - For credited service after January 1, 2020, an early retirement reduction of 3.6% per year will be applied to the number of years before age 60 or, if earlier, age 55 and age plus service totaling 80 years.
- The balance of the employee and City contributions over the current service cost of the benefits will be available to finance future cost-of-living adjustments to pensions.

Option 3 will not impact the City's current obligation to obtain a letter of credit. However, the Province is currently reviewing pension legislation and will likely change the legislation regarding pension plans, leading to a full or partial removal of solvency funding requirements.

None of the proposed revisions impact the pension benefit credits earned by members for service prior to January 1, 2020 or the pensions currently payable to the Plan's pensioners.

Noted below is a summary of total savings from the initiatives noted above (millions of $).

	Cost of Benefits	Employee Contributions	City Contributions
2019	$44.4	$13.4	$31.0
Potential savings:			
Overtime	($2.1)	($0.6)	($1.5)
Change in contribution rates (in 2019$)			
in 2020	($5.4)	$1.1	($6.5)
by 2024	($5.4)	$5.6	($11.0)
Potential annual costs (in 2019$)			
in 2020	$36.9	$13.9	$23.0
by 2024	$36.9	$18.4	$18.5
Change vs. status quo (in 2019$)			
in 2020	($7.5)	$0.5	($8.0)
by 2024	($7.5)	$5.0	($12.5)

Further detail in support of the above analysis is provided in the attached materials prepared by Smith Pension & Actuarial Consultants Inc. dated August 15, 2019 (Appendices 3 and 4).

As required by subsection 14(2) of the By-law 126/2011, a report on the proposed Amendments to the By-law has been prepared by the Plan actuaries, Eckler Ltd., and is attached as Appendix 7 together with a letter from the Chief Executive Officer of the Winnipeg Civic Employees' Benefits Program. The By-law being recommended for enactment by Council (Appendix 6) includes changes initially considered and provided to Eckler Ltd. by the Police Pension Plan Board together with nominal wording changes offered by Smith Pension & Actuarial Consultants Inc. and included in Eckler Ltd.'s. final report.

In summary, the changes proposed in this report are significant and it is the City's position these changes may be made by virtue of Section 14 of By-law No. 126/2011 relating to amendments to the Police Pension By-law and Plan.

FINANCIAL IMPACT

Financial Impact Statement

Date: October 24, 2019

Project Name:

First Year of Program **2020**

Revisions to the Winnipeg Police Pension By-law No. 126/2011

	2020	2021	2022	2023	2024
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 (Cost Savings)	$ (8,000,000)	$ (9,200,000)	$ (10,300,000)	$ (11,400,000)	$ (12,500,000)
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ (8,000,000)	$ (9,200,000)	$ (10,300,000)	$ (11,400,000)	$ (12,500,000)
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ (8,000,000)	$ (9,200,000)	$ (10,300,000)	$ (11,400,000)	$ (12,500,000)

Additional Comments:

1. Cost savings reflect the approximate decrease in city contributions to the Winnipeg Police Pension Plan as proposed in this report based on the analysis and assumptions by Smith Pension and Actuarial Consultants.

2. Full implementation is expected to conclude in 2024 where the annual savings are expected to exceed $12 million.

3. Contemplated in the report, but not shown above is a contribution to the Winnipeg Police Service budget from savings generated through the removal of overtime from pensionable earnings in the amount of $1.5 million.

original signed by

Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:
Legal Services
Corporate Services
External review – Smith Pension & Actuarial Consultants Inc. and Lawson Lundell, LLP

OURWINNIPEG POLICY ALIGNMENT

Not applicable

SUBMITTED BY

Department: Corporate Finance
Division: CFO
Prepared by: Mike Ruta
Date: November 4, 2019

Attachments:

Appendix 1 – History
Appendix 2 – Comparison of Police pension plans
Appendix 3 – Potential Changes to Plan Provisions (Including Actuarial Costing of Financial Implications) prepared by Smith Pension & Actuarial Consultants
Appendix 4 – Summary of Costing of City's proposal and Projected reduction in City contributions
Appendix 5 – Examples of early retirement provisions under two scenarios
Appendix 6 – By-law to amend Winnipeg Police Pension By-Law
Appendix 7 – Letter to City Council and Report from Police Pension Plan actuaries, Eckler Ltd.

Appendix 1

Winnipeg Police Pension Plan
History

Overview

- The Winnipeg Police Pension Plan (Plan) is a defined benefit pension plan, registered under Manitoba's Pension Benefits Act and Canada's Income Tax Act. The pension benefit is determined by a formula that is set out in the Winnipeg Police Pension Plan By-law No. 126/2011. Pension benefits are financed by the assets (including investment earnings) of the Plan and contributions by the City of Winnipeg and the active members under the Plan.
- The origins of the current Pension Plan for police officers date back to 1975. The current Plan encompasses the amalgamation, in 1989, of the police officers' component of a number of prior pension plans that had previously existed separately for the former municipalities and cities of greater Winnipeg. The Plan has undergone many changes over the years, most recently with the implementation of the Surplus- and Risk-Sharing Agreement, effective January 1, 2003. Prior to this date there were many other By-laws governing the Plan and distribution of surpluses.
- The Winnipeg Police Pension Board was established under the By-law with the responsibility for administration of the Winnipeg Police Pension Plan. The Board is currently comprised of nine voting members: five members are appointed by the City of Winnipeg, two members are appointed by the Winnipeg Police Association, one member is appointed by the Winnipeg Police Senior Officers' Association and one member is elected by the non-active members of the Plan. There are also four non-voting members, with one each appointed by the WPA, the WPSOA, the non-active members and City.
- The Board is responsible for ensuring that the Pension Plan is administered in accordance with the By-law, and approving and reviewing the investment policy, investment performance and funding of the Plan. The Board is responsible for ensuring adequate financial records are maintained and for reporting annually on the results of operations of the Pension Plan to the City and to Plan members.
- The Investment Committee is responsible for determining the asset mix of the Plan, recommending investment managers to manage the assets of the Plan and monitoring the performance of each investment manager. The Board has appointed the Investment Committee of The Board of Trustees of The Winnipeg Civic Employees' Benefits Program (Pension Fund) to carry out these responsibilities.
- The day-to-day administration of the Plan is carried out by the management and staff of The Winnipeg Civic Employees' Benefits Program under the direction of the Chief Executive Officer.

Surplus and Risk-Sharing Agreement effective January 1, 2003

- As at January 1, 2003, the Plan was comprised of the following:
    - Market value of assets - $620 million
    - Actuarial surplus after allocations below - zero
    - Funding of COLA at 75% of CPI - $48.2 million
    - Contribution Stabilization Reserve (CSR) - $52.2 million (initial allocation $48.6 million)
    - Plan Members Account - $4.4 million
    - City Account – zero
- The plan provisions at that time are summarized in Appendix A of the January 1, 2003 actuarial valuation report and include the following:

- Members' required contributions – 8% of earnings.
- Earnings include overtime.
- Contribution Stabilization Reserve is defined as a portion of the actuarial surplus in excess of the balance necessary to fully fund future COLA at 75% of CPI. The reserve is designed to maintain City contributions at matching rate (8% of pay).
- If future funding deficiencies cause the CSR to fall below the initial allocation of $48.6 million, the funding of future COLAs must be reduced by an amount equal to the reduction in the CSR. However, the funding of future COLAs cannot be reduced below the total of matching contributions of 1% of earnings from the City and employees plus interest.
- Pensions of 2% of highest 5-year average earnings multiplied by years of credited service, reduced after age 65 for integration with the Canada Pension Plan.
- Retirement after age 55 or 25 years of credited service or later with an unreduced pension.
- Early retirement is permitted after age 50 or 20 years of credited service reduced by 3.6% for each year that retirement precedes 25 years of service or age 55.
- In summary, members who have 25 years of credited service can retire at any time with an unreduced pension regardless of age. Members who reach 55 or older can retire with an unreduced pension regardless of credited service.

In effect, the By-law divided surplus between both the Plan members and the City. The Plan members were able to improve their benefits and the City was able to use its portion to reduce contributions to the Plan which benefited City residents from a taxation perspective. Prior to 2003, the Plan's funds were sufficient to finance future COLAs of approximately 36% of CPI increases. As noted above changes in funding allowed members to fund COLAs of 75% of CPI increases.

Further discussion concerning 2003 by-law amendments

- A report prepared by the City Solicitor in 1990 indicated there was considerable debate concerning ownership of surpluses in pension plans. He stated the City had no right to withdraw the surplus from the police plan nor was there a requirement that the surplus be used to provide greater benefits to the plan members.
- He noted the cost of the plan was approximately equally shared between the City and police employees; the City was responsible for paying the balance of the cost of the plan and bears the risk of the cost of the Plan and any unfunded liabilities. In addition to submitting member required contributions to the Regular Account the City was required to contribute the balance of the actuarial cost of the basic benefits earned in respect of service each year. The City was also required to liquidate any unfunded liability or experience deficiency in accordance with the Pension Benefits Act of Manitoba. The City matched the members contributions to the Supplementary account.
- If actuarial valuations revealed funding excesses in the Regular account a portion of the funding excess was allocated to a Contingency Reserve in the Regular Account for use by the City and the remainder was allocated to the Supplementary Account.
- At the time funding into the Supplementary Account could only support cost of living adjustments to pensions of approximately 40% of the annual increases in the

CPI. There was insufficient actuarial surplus in the Supplementary Account to fund future cost of living increases and transfers would have been required from the Regular Account. The Regular Account paid for all benefits except cost of living adjustments. The Supplementary Account paid for cost of living adjustments.

Based on the above, the Plan was a defined benefit plan with the City having full responsibility for unfunded liabilities. However, the discussion did highlight the uncertainty regarding use of the surplus which seemed to be equally claimed by the City and Police members. Because of these limitations the Supplementary Account did not have sufficient surplus to permit increases in COLA beyond 40%. As a result the new agreement that took effect in 2003 was meant to provide clear allocation of the remaining surplus to be used by both the members and City. In a report to Council in 2002 the following benefits of the new agreement were outlined:

City benefits

- Provides for stable funding of the Plan.
- Reduces risk of future unfunded liabilities.
- Provides for opportunity for reduced City contributions when actuarial surplus is in excess of amounts required to fully fund plan benefits and the contribution stabilization reserve (which limits the City's contributions to matching of Plan member contributions).
- Resolves uncertainty with respect to treatment of actuarial surpluses and funding deficiencies.

Plan member benefits

- COLA is fully funded at 75% of CPI increases.
- Provides for protection against increase in future inflation by not limiting COLA to a fixed amount (i.e. the previous Supplementary Account).
- Indexing of deferred pensions.
- Maintains stable funding of the Plan.
- Provides for 50/50 sharing of actuarial surpluses when Plan (including COLA at 75% of CPI increases) and reserves are fully funded.

The City reviewed the history of a $4.4m adjustment to surplus prior to the 2003 reorganization that was required by Revenue Canada at the time and the subsequent equal contribution to the Plan Members' account. At December 31, 1999, the Plan had an actuarial surplus in excess of 10% of the plan's actuarial liabilities and was required under the *Income Tax Act* to temporarily suspend contributions to the plan in 2001 and 2002. Because the Plan had been funded on the basis of equal City and employee contributions, an equal amount was credited for additional benefits for the Plan members, with the agreement of the police associations.

All of the actuarial valuation reports are addressed to the Board of the Plan and the Police Associations should have this information in their files.

City contributions

In addition, the City reviewed the actuarial valuation reports for each of the years from 1999 onwards and obtained information supporting payments made by the City to the Plan. In each year up to 2011 the actuarial valuation reports have recommended the City pay 8% into the plan with the rest of the Plan cost being financed by an equal amount of employee contributions and the remainder from the Contribution Stabilization Reserve. It has also been verified from City

payment records that contributions at 8% were made each year up to 2011 with the exception of 2001 and 2002 where surpluses were identified as noted above. City contributions increased to 14.07% in 2012 and 15.05% in 2013 and incrementally more thereafter as required in the actuarial valuation reports.

Extracts from By-law 126/2011

The By-law provides for amendment, termination, merger or division as follows under Section 14:

(1) Subject to Section 15, but notwithstanding any other provision of this By-law or the Plan, Council may by By-law from time to time amend, modify, vary or terminate the terms, conditions or provisions of this By-law or the Plan (and any trust arising under this By-law or under the Plan) in such a manner and on such terms as Council may determine appropriate, such determination to be conclusively deemed to be evidenced by the passage of such By-law, and such amendment, modification, variation or termination may be effective retroactive to a date prior to the dates such By-law is passed.

(2) If a proposed amendment, modification or variation of the terms, conditions or provisions of this By-law or the Plan would materially affect the contributions or benefits payable under the Plan, the Board shall have a report thereon prepared by the Actuary and shall provide such report to Council, and Council shall not adopt such amendment, modification or variation until having received such report.

(3) Subject to Section 15, but notwithstanding any other provision of this By-law or the Plan, Council may by By-law merge, consolidate or divide all or part of the Plan (and any trust arising thereunder) or Pension Fund with or into any one or more other pension plans (and any respective trusts arising thereunder), or pension funds, or other arrangements maintained by the City, notwithstanding that the Plan or such one or more other pension plans or other arrangements maintained by the City may at the time of such merger, consolidation or division have an actuarial surplus or an unfunded liability, such merger, consolidation or division to be on such terms and conditions as Council may determine appropriate and which also meets with regulatory requirements, such determination to be conclusively deemed to be evidenced by the passage of such By-law, and such merger, consolidation or division may be effective retroactive to a date prior to the dates such By-law is passed.

Section 15 of the By-law is titled “No reduction in Accrued Benefits” and states the following:

Except as otherwise provided in this By-law, no amendment, modification, variation, termination, merger, consolidation or division pursuant to Section 14 of this By-law shall adversely affect the pension benefit credits (as defined in the Pension Benefits Act) of any Plan member in respect of remuneration and service or membership in the Plan prior to the effective date of the amendment, modification, variation, termination, merger, consolidation or division. In addition, in the event of the termination of the Plan (and any trust arising under the Plan) or the Pension Fund, no part of the assets of the Plan (and any trust arising under the Plan) shall revert to the benefit of the City until provision has been made for all pensions and other benefits in respect of service up to the date of such termination to

members of the Plan, and for all benefits to former employees, pensioners, and their respective dependents, beneficiaries and estates.

Appendix 2

Appendix 3

Appendix 4

Appendix 5

Appendix 6

Appendix 7