Revised
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Winnipeg Police Pension Plan

Outline of Proposed Surplus Sharing Arrangement

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APPENDIX A

Review of Objectives

City Objectives

- Share surpluses commensurate with financial risk
- Maintain contributions at or below matching
- Minimize future financial risk
- Not sanction "permanent" benefit improvements

Plan Members' Objectives

- Maintain existing benefit guarantees
- Secure COLA
- Increase COLA to 100% of CPI
- 50/50 sharing of surpluses

Outline of Proposed Arrangement

1. Merge Regular and Supplementary Accounts.

   Benefits:
   - *Precludes possibility of one account having a funding deficiency while the other has a surplus*
   - *Reduces risk for both the City and the Plan members*
   - *Applies the same funding standards to COLAs as for other Plan benefits*

2. Allocate a portion of existing actuarial surplus in the Regular Account to:
   a) Fully fund future COLAs at 75% of CPI ($35.5 million[1])
   b) Index deferred pensions at 75% of CPI until pension commencement ($0.3 million)
   c) Establish a contribution stabilization reserve (CSR) to maintain City contributions at matching rate (8% of pay) with an amount equal to the sum of a) and b) ($35.8 million[1])

   Implications:
   - *Eliminates intergenerational transfers between Plan members with respect to financing of COLAs*
   - *Level of COLA continues not to be guaranteed by the City, but funding provides a high degree of security to both present and future pensioners*
   - *Indexing of deferred pensions is consistent with Employee Benefits Program and most public service pension plans*
   - *Establishing the CSR gives priority to stability of City contribution rate over further benefit improvements*

[1] This is before adjusting for the 2001 "Interim Agreement" (see page 9).

Outline of Proposed Arrangement (cont'd)

3. Allocate additional actuarial surplus to fully fund CSR based on the expected remaining future working lifetime of the present Plan members (about $40 million).

   Implications:

   - *If the actuarial assumptions are met, no increase in City (or Plan member) contributions should be needed in the future in respect of the present police employees*
   - *Ultimately, higher City contributions could be required, either as a result of new police employees joining the Plan or if the Plan has adverse experience relative to the actuarial assumptions*
   - *If the Plan has better experience in the future relative to the actuarial assumptions, this could offset shortfalls in the CSR due to new police employees joining the Plan*

4. After the CSR is fully funded, allocate additional actuarial surpluses on a 50/50 basis (i.e. surplus in excess of about $115 million):
   a) Plan members' share of surplus could be used to increase COLA up to a maximum of 100% of CPI, finance a temporary reduction in employee contributions, or otherwise improve benefits in a manner jointly agreed with the City
   b) City share of surplus could be used to finance a reduction in the City's contributions below matching

Outline of Proposed Arrangement (cont'd)

b) Any unutilized balance of the Plan members' or City's share of surplus would be credited with investment income at the net fund rate of return each year

Implications:

- *Any benefit improvements would not create additional future obligations for the City, unless specifically agreed to with the City (e.g. through collective bargaining)*
- *The City would not reduce its contributions below matching unless CSR is fully funded. This will avoid intergenerational inequities for taxpayers*

Proposed Treatment of Funding Deficiencies

Funding Status Prior to Deficiency			Action
City Acct	COLA[1]	CSR	
>0	>75% of CPI	Fully funded	Equal reduction in City Account and funding of COLA above 75% of CPI (or other benefit improvements) *50/50 risk sharing*
≥0	75% of CPI	>$36 million[2]	Reduce CSR to not less than $36 million *Maintains COLA stable at 75% of CPI* *If positive, City Account can be used to reduce City contributions below matching* *Treats CSR as a "Plan asset"*
0	>75% of CPI	Fully funded	Reduce CSR to not less than $36 million *Applies "Plan asset" against funding deficiency.* *Cola remains above 75% of CPI, since no "City asset" available for risk-sharing.*
>0	≤75% of CPI	≤$36 million	Equal reduction in City Account and funding of COLA *50/50 risk sharing*
0	≤75% of CPI	≤$36 million	Equal reduction in CSR and funding of COLA *50/50 risk sharing* *Treats CSR below $36 million as "City asset"*

[1] Assumes all Plan members' share of surpluses are used to finance COLAs.

[2] $36 million is based on initial allocation of actuarial surplus to fully fund COLAs at 75% of CPI and to index deferred pensions, and is before adjusting for the 2001 "Interim Agreement" (see page 9).

Proposed Treatment of Funding Deficiencies (cont'd)

Funding Status Prior to Deficiency			Action
City Acct	COLA	CSR	
0	Level supported by 2% of pay[3]	>0	Reduce CSR *City contributions maintained at matching rate as long as CSR has positive balance*
0	<75% of CPI	0	Increase City contribution rate to the balance of the full actuarial cost of basic benefits plus 1% of pay for COLA and reduce COLA to not less than level that can be supported by contributions of 2% of pay[3] *City contributions only increase above matching rate when CSR is exhausted* *Increasing the City's contribution rate by itself does not reduce the funding deficiency; it simply stops it from increasing*
0	Level supported by 2% of pay[3]	0	Increase City contributions to amortize the unfunded liability *At this stage, the Plan has a true unfunded liability that requires the City to contribute the balance of the full actuarial cost of the benefits and the special payments required under the Pension Benefits Act to liquidate the unfunded liability* *The City is bearing the full risk of the Plan at this stage* *Present and future police pensioners are protected to the extent of COLAs already granted and accumulated contributions of 2% of pay in respect of the employee members*

[3] The funding of COLA would not fall below the sum of (a) the actuarial liability for COLAs already granted to pensioners, and (b) the accumulation of contributions at the rate of 2% of pay (since 1979, when contributions to the Supplementary Account commenced) in respect of the employee members.

Proposed Treatment of Surplus Following Funding Deficiencies

Funding Status Prior to Surplus			Action
City Acct	COLA	CSR	
Unfunded liability			Offset against unfunded liability *Reduces City's special payments for unfunded liability* *Before any further surplus is allocated, City would also be able to "recapture":* *(a) unfunded liability payments made since date of valuation that disclosed surplus, and* *(b) previous unfunded liability payments up to an amount equal to COLA reserve based on 2% of pay accumulated in respect of employee members, with interest* *COLA cannot fall below level supported by contributions of 2% of pay.*
0	Level support-ed by 2% of pay	0	50/50 allocation to fund COLA and to CSR *Gives equal priority to reducing City contributions from balance of full actuarial cost and increasing COLA above minimum rate*
0	75% of CPI	< Fully funded	Used to fund CSR *Gives priority to fully funding CSR before further benefit enhancements or allocation to City Account* *Maintains COLA stable at 75% of CPI and City contributions at 8% of pay*
0	<75% of CPI	Fully funded	Used to fund COLA *If CSR is fully funded while COLA is less than 75% of CPI, gives priority to fully funding COLA at 75% of CPI*
≥0	≥ 75% of CPI	Fully funded	50/50 allocation to City and Plan Members' accounts *Allows Plan members to increase COLA above 75% of CPI or otherwise benefit from surplus* *Allows City to reduce contributions below matching*

Treatment of 2001 "Interim Agreement"

Interim Agreement

a) City contribution holiday ($2,171,000) for first 10 pay periods of 2001.

b) Transfer of equivalent amount of actuarial surplus from Regular Account to Supplementary Account.

Proposal

Treat as allocation of additional actuarial surplus to City and Plan members' account on 50/50 basis, exclusive of allocations required to fully fund COLAs at 75% of CPI and to CSR (i.e. allocation of surplus required to fully fund future COLA at 75% of CPI will increase from about $36 million to about $38 million).

Implications:

- *City contribution holiday treated as advance allocation to City Account that City has "spent"*
- *Equivalent credit to Supplementary Account available to Plan members to finance COLA in excess of 75% of COLA or offset on 50/50 basis against subsequent funding deficiency*
- *No adjustment needed with respect to use of surplus to maintain City contributions at matching since 1998*

Implied Priorities

1. Fully fund basic benefits and COLA based on contributions of 1% +1% of pay

2. Equal priority to increasing funding of COLA and maintaining City contributions at matching until CSR reaches about $38 million

3. Maintain COLA at 75% of CPI

4. Fully fund CSR

5. Equal priority to reducing City contributions below matching and increasing COLA above 75% of CPI (or other benefits to Plan members)

Potential Allocation of December 31, 2001 Actuarial Surplus (All Proposals)

December 31, 2001 Regular Account Actuarial Surplus	$117 million
+2001 City contribution holiday	2 million
+2001 transfer to Supplementary Account	2 million
	$121 million

	CSR	Funding of COLA at 75% of CPI	Plan Members' Account	City Account
Advance allocation in 2001			$2 million	$2 million
Full funding of COLA at 75% of CPI and indexing of deferred pensions		$38 million		
Equal allocation to CSR	$38 million			
Full funding of CSR	38 million			
50/50 allocation of additional surplus			1.5 million	1.5 million
	$76 million	$38 million	$3.5 million	$3.5 million
Less: 2001 contribution holiday				(2 million)
				$1.5 million

Illustration of Effect of Funding Deficiency

Assumed starting position at January 1, 2002:

- COLA at 75% of CPI fully funded ($91 million)
- CSR fully funded ($76 million)
- Unutilized balance in Plan Members' Account: $3.5 million
- City Account balance: $1.5 million

Size of Funding Deficiency	Action
First $3 million	Eliminate City Account balance Reduce Plan Members' Account by $1.5 million
Next $38 million	Reduce CSR Maintain COLA at 75% of CPI + increase financed by $2 million in Plan Members' Account City contributes at matching rate
Next $76 million	Equal reduction in CSR and COLA City contributes at matching rate
Next $28 million	City contributions increase to balance of cost COLA further reduces (but not below level supported by contributions of 2% of pay)
More than $145 million	City contributions increase to include special payments to amortize unfunded liability

Illustration of Effect of Surplus Following Funding Deficiency

Accumulated Funding Deficiency Since January 1, 2002	Action
<$3 million or surplus	50/50 allocation to City and Plan Members' accounts
$3 million to $41 million	Increase CSR (if COLA is at least 75% of CPI)
$41 million to $94 million	Increase COLA to 75% of CPI (if CSR is at least $38 million[1])
$41 million to $145 million	Equal increases in CSR and COLA (if CSR is less than $38 million[1])
More than $145 million	Offset against unfunded liability Then permit City to "recapture" previous unfunded liability payments up to amount of COLA reserve based on 2% of pay for employee members, with interest

[1] or other minimum threshold agreed to by the parties.

Potential Benefits of Proposed Arrangement from Plan Members' Perspective

- ✓ COLA is fully funded
  - ❑ never been the case before
  - ❑ adds significant security to both pensioners and employees (as future pensioners)
- ✓ Provides protection against increases in future inflation by not limiting COLA on the basis of a fixed amount (i.e. the present Supplementary Account)
- ✓ Benefit of indexing of deferred pensions
  - ❑ increases value of pension in case employee does not continue as a police officer until retirement
  - ❑ indirectly, increases death benefits in some situations (particularly where no surviving spouse or dependent children)
- ✓ Maintains stable funding of Plan (by limiting City's ability to take contribution holidays)
- ✓ Provides for 50/50 sharing of actuarial surpluses when Plan (including COLA at 75% of CPI increases) and reserves are fully funded

Potential Benefits of Proposed Arrangement from City's Perspective

- ✓ 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 contribution stabilization reserve
- ✓ Resolves uncertainty with respect to treatment of actuarial surpluses and funding deficiencies