Agenda – Executive Policy Committee – July 13, 2022

REPORTS

Item No. 15 Winnipeg Police Pension Plan Use of Letters of Credit Annual Report

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the City issue an amended letter of credit, on October 26, 2022, initially valued at $4.187 million, increasing monthly to a value on expiry on October 26, 2023 of $6.782 million to support a solvency deficiency of the Winnipeg Police Pension Plan ("the Plan"), based on the December 31, 2020 actuarial valuation of the Plan.

2. That the Chief Financial Officer report annually to Council, in September of each year, beginning in 2023, on the City's projected future commitments under any letters of credit issued pursuant to these recommendations.

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

ADMINISTRATIVE REPORT

Title: Winnipeg Police Pension Plan Use of Letters of Credit Annual Report

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
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EXECUTIVE SUMMARY

The Winnipeg Police Pension Plan (the Plan) actuarial valuation as at December 31, 2020 indicated a solvency deficiency of $11.562 million. This is to be funded over 5 years either through special solvency payments to the Plan of approximately $2.459 million per year, or through the issuance of a letter of credit.

To ensure funding the solvency deficiency is affordable to taxpayers, the City elected under the Pension Benefits Regulation to the Pension Benefits Act to secure the special solvency deficiency payments through the use of a letter of credit in 2021. The amount of the letter of credit is increased each year to reflect the accumulation of the special payments, plus interest.

The renewal of this letter of credit has a value of $4.187 million in October 2022 which escalates on a monthly basis to $6.782 million on the expiry date of October 26, 2023. The cost of reissuing the Letter of Credit is $20,487 over the 2022 and 2023 budget years in addition to the costs already incurred in 2022.

It is recommended the City issue an amended letter of credit to replace the existing one which expires on October 26, 2022. The City of Winnipeg issued a letter of credit for the value of $1.654 million in October 2021 which escalates on a monthly basis to $4.187 million at the expiry date of October 26, 2022. This letter of credit funds the solvency deficiency identified in the actuarial valuation as of December 31, 2020.

RECOMMENDATIONS

1. That the City issue an amended letter of credit, on October 26, 2022, initially valued at $4.187 million, increasing monthly to a value on expiry on October 26, 2023 of $6.782 million to support a solvency deficiency of the Winnipeg Police Pension Plan (“the Plan”), based on the December 31, 2020 actuarial valuation of the Plan.

2. That the Chief Financial Officer report annually to Council, in September of each year, beginning in 2023, on the City’s projected future commitments under any letters of credit issued pursuant to these recommendations.

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

REASON FOR THE REPORT

Council approval is required to obtain a letter of credit.

IMPLICATIONS OF THE RECOMMENDATIONS

The City was advised by the Winnipeg Police Pension Board, ("the Board") that a solvency deficiency exemption vote of the Plan membership was not successful in 2012. This means that the Plan is not able to access exemptive relief for any Plan solvency deficiencies, and in turn, the Plan sponsor must fund those deficiencies either through additional payments or through the use of a letter of credit. In voting against solvency exemption, the members of the Plan created a financial burden for the City. The City has a choice to cover the deficiency:

- increase its contributions to the Plan by an estimated $2.459 million each year for five years, or
- obtain a letter of credit of sufficient value to offset the solvency deficiency.

HISTORY/DISCUSSION

History:

On February 27, 2013, Council adopted the following:

That in the event an annual Council approval is not obtained on or before the date that falls 120 days prior to the date necessary to meet all obligations under the pension benefits legislation as determined by the Chief Financial Officer in consultation with the actuary, that the Chief Financial Officer be delegated the authority to issue the required letter of credit for such year and determine final amounts, timing, terms, and process for such letter of credit based on legal and actuarial requirements.

That the Chief Financial Officer report annually to Council on the City's projected future commitments under any letters of credit issued pursuant to these recommendations.

Discussion:

The purpose of a solvency valuation by an actuary, and the related funding requirements prescribed under the *Pension Benefits Act*, is to increase the likelihood that, if a pension plan were to be terminated, it would have sufficient assets to settle all of its benefit obligations. Even if a pension plan is fully funded on a going concern basis, it might not be able to meet its obligations if it were terminated and wound up. This report does not include discussion regarding potential future going concern deficits.

There is general recognition that private sector single employer pension plans and large public sector plans like the Winnipeg Police Pension Plan carry very different risks. Given the City

of Winnipeg is unlikely to default on its obligations, an election for exemption from the solvency funding requirements seemed reasonable and appropriate.

Other public sector pension plans such as the Winnipeg Civic Employees' Pension Plan, the Manitoba Healthcare Employees' Pension Plan and the pension plans for the University of Manitoba and University of Winnipeg have elected for solvency exemption. Also, the Manitoba Civil Service Superannuation Plan and the Manitoba Teachers' Retirement Allowances Fund are not subject to the Manitoba *Pension Benefits Act's* funding requirements. Therefore, an election for exemption for the Winnipeg Police Pension Plan would have been consistent with the approach taken by other large public sector pension plans in Manitoba.

On December 14, 2012, the Board issued a Member Notice setting out the election process for solvency exemption as outlined in legislation. If fewer than 1/3 of the active plan members and fewer than 1/3 of the pensioners and other beneficiaries had objected to the election, the Board would have elected to have the Plan exempted from the solvency provisions as requested by the City of Winnipeg. The members voted in significant numbers to reject the election.

Letter of Credit or Cash Contributions:

The Plan's actuaries have determined the Plan's December 31, 2020 actuarial valuation resulted in a solvency deficiency of $11.562 million as of that date and that the yearly amount required from the City to fund that solvency deficiency is approximately $2.459 million per year for five years.

This funding translates to a .39% annual property tax increase if cash payments were made annually. Each year the actuarial valuation determines the amount of special payments to fully fund the Plan on a solvency basis. This approach would create financial burden to the City and its residents.

Alternatively, the Pension Benefits Regulation to the Pension Benefits Act permits the City to secure the special solvency deficiency payments by obtaining a letter of credit. The amount of the letter of credit would be increased each year to reflect the accumulation of the special payments not made, plus interest.

A standby letter of credit is defined as follows:

> "A *Standby Letter of Credit* is an undertaking by a Bank to pay the beneficiary upon demand within a specified time frame subject to presentation of specified documents (i.e. a request for payment). Standby Letters of Credit are issued to support payment, when due or after default, of obligations or upon the occurrence or non-occurrence of another contingency."

The Board would hold the letter of credit on behalf of the Plan. The use of the letter of credit is to guarantee the Board, on behalf of the Plan, that there is no risk to the members of the City defaulting on its financial obligations under the Plan.

The City has issued Standby Letters of Credit to secure the special solvency deficiency payments in the following years and associated cost:

Year	Fees ($)	Value of Letter of Credit ($) *	
2014	142,099	29,912,242	
2015	101,092	31,093,776	
2016	95,121	32,321,980	
2017	98,586	35,093,253	
2018	116,047	37,743,943	**
2019	-	-	
2020	-	-	
2021	6,059	2,281,802	
2022	10,289	4,187,068	***

* Value at December 31

** Letter of Credit expired October 2018, renewal was not necessary as the Plan had sufficient funds

*** Letter of Credit Value expected at October 2022 expiry

FINANCIAL IMPACT

Financial Impact Statement

Date: June 21, 2022

Project Name:

Winnipeg Police Pension Plan Use of Letters of Credit Annual Report

First Year of Program **2022**

	2022	2023	2024	2025	2026
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 3,819	$ 16,668	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 3,819	$ 16,668	$ -	$ -	$ -
Less: Existing Budget Amounts	3,819	16,668	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Direct costs represent the annual cost of reissuing the Letter of Credit in 2022. The amount will be charged to the Winnipeg Police Services operating budget.

Jocelyn Peters - June 21, 2022

Jocelyn Peters, CPA, CGA
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

N/A

OURWINNIPEG POLICY ALIGNMENT

N/A

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

N/A

SUBMITTED BY

Department: Corporate Finance
Division: Financial Services
Prepared by: Rob Provencher
Date: June 22, 2022
File No: N/A

Attachments: N/A