Agenda – Executive Policy Committee – September 21, 2023

REPORTS

Item No. 3 Winnipeg Police Pension Plan Use of Letters of Credit Annual Report

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the Letter of Credit issued in 2022 not be renewed for the Winnipeg Police Pension Plan ("the Plan"), based on the December 31, 2022, actuarial valuation of the Plan which indicates the Plan has achieved a solvency surplus.

2. That, subject to approval of Recommendation 1, annual reporting on the matter be concluded.

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

DECISION MAKING HISTORY:

COUNCIL DECISION:

On July 21, 2022, Council concurred in the recommendation of the Executive Policy Committee and adopted the following:

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
R. Provencher	C. Kloepfer	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

In July of 2022, the City of Winnipeg issued a Letter of Credit for the value of $4.401 million effective October 2022, which escalates on a monthly basis to $6.782 million at the expiry date of October 26, 2023. This Letter of Credit funded the solvency deficiency identified in the previous actuarial valuation as of December 31, 2020 of the Winnipeg Police Pension Plan (the Plan).

To ensure funding the solvency deficiency is affordable to taxpayers, the City elected under the Pension Benefits Regulation of the Pension Benefits Act to secure the special solvency deficiency payments through the use of a Letter of Credit in 2022. The amount of the Letter of Credit is increased each year to reflect the accumulation of the special payments, plus interest. As stated, this Letter of Credit had a value of $4.401 million on October 2022 which escalates on a monthly basis to $6.782 million on the expiry date of October 26, 2023. The cost of issuing the Letter of Credit in 2023 is $21,796.

The Letter of Credit can now be cancelled at its expiry date of October 26, 2023, because the most recent actuarial valuation, as at December 31, 2022, now shows the Plan to be in a surplus position.

RECOMMENDATIONS

1. That the Letter of Credit issued in 2022 not be renewed for the Winnipeg Police Pension Plan (“the Plan”), based on the December 31, 2022, actuarial valuation of the Plan which indicates the Plan has achieved a solvency surplus.

2. That, subject to approval of Recommendation 1, annual reporting on the matter be concluded.

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.

On July 21, 2022 meeting, Council concurred in the recommendation of the Executive Policy Committee and adopted the following:

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.

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 cost for the City. A Letter of Credit is not required to be issued in 2023.

Since inception of these arrangements in 2013, the City has incurred $591,960 in Letter of Credit fees. Such fees are only incurred if Letters of Credit are issued.

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.

Actuarial Valuation and Cancellation of Letter of Credit:

The Plan's actuaries have determined the Plan's December 31, 2022, actuarial valuation resulted in a solvency surplus of $482.1 million as of that date. As a result of this surplus, a letter of credit is no longer required. The October 2022 Letter of Credit will be cancelled and not renewed at maturity.

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	11,159	4,829,944	
2023	21,796	6,782,269	***

* Value at December 31
** Letter of Credit expired October 2018
*** Value as of September 30, 2023

FINANCIAL IMPACT

Financial Impact Statement Date: September 5, 2023

Project Name:
Winnipeg Police Pension Plan Use of Letters of Credit Annual Report

COMMENTS:

There are no financial implications associated with the recommendations in this report.

Randy Bernard

Randy Bernard, CPA, CMA
Manager of Finance & Administration (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

N/A

OURWINNIPEG POLICY ALIGNMENT

Section 02 of OurWinnipeg (A Sustainable City) provides policy guidance and states social, environmental and economic sustainability are essential to Winnipeg's long-term well-being. The Police Letter of Credit aligns with economic sustainability goals.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

Consideration was given as to whether this report connects to the Winnipeg Climate Action Plan (CAP), and it was determined that the CAP is not applicable to this specific report.

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

Consideration was given as to whether this report connects to the Winnipeg Poverty Reduction Strategy (PRS) and its Goals and Objectives, and it was determined that the PRS is not applicable to this specific report.

SUBMITTED BY

Department: Corporate Finance
Division: Financial Services
Prepared by: Rob Provencher
Date: September 6, 2023
File No: N/A