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October 18, 2023

Winnipeg Police Pension Board
c/o Ms. Glenda Willis
Chief Executive Officer
Winnipeg Civic Employees' Benefits Program
5th Floor – 317 Donald Street
Winnipeg, MB R3B 2H6

Subject: **Winnipeg Police Pension Plan – Actuarial Report on Financial Implications of By-law No __/2023 to Amend By-law No 126/2011**

Dear Ms. Willis and Winnipeg Police Pension Board:

We are pleased to provide this actuarial report on the financial implications of the draft By-law No. __/2023 ("Amending By-law") amending the Winnipeg Police Pension Plan ("Plan"). An actuarial report is required to be prepared by the Plan before modifying Plan terms that would materially affect the contributions or benefits payable under the Plan. The intended users of this report are the Winnipeg Police Pension Board and Winnipeg City Council.

The Plan changes, other than "housekeeping" changes, as reflected in the Amending By-law, are as follows:

1. **Member and City Contribution Rates** – Required contributions are increased from 8% of pay to 8.8% effective Feb 11, 2024 and 9.6% effective Feb 9, 2025.
2. **Early Retirement Reduction** – The early retirement reduction applied to the lifetime pension is increased from 3.6% per year to 4.0% per year for service after December 31, 2023.

The results shown in this report are based on the *Actuarial Report on the Winnipeg Police Pension Plan Actuarial Valuation as at December 31, 2022*, dated June 16, 2023. Please refer to that report and Appendix II of this report for details of the data, assumptions and methodologies used in this report.

Summary of Results and Conclusions

The following table provides a summary of the financial impact of the various Plan changes:

			Total Current Service Cost for Non-Indexed Benefits		Source of Funding Current Service Cost for Non-Indexed Benefits		
	Going-concern Liabilities ('000,000s)	Solvency Liabilities ('000,000)s	Percent of Earnings	Estimated Dollar Amount ('000,000s)	Member Current Service Cost Contribution	City Current Service Cost Contribution	Current Service Cost Contribution Paid from Cont. Stab. Reserve
Value before amendment	$1,901.5	$1,485.0	28.37%	$53.3	8.00%	8.00%	12.37%
Financial Impact of changes to:							
1 - Matching Contributions	-	-	-	-	1.60%	1.60%	(3.20%)
2 - Early Retirement Reduction	-	-	-	-	-	-	-
Total impact of amendments	-	-	-	-	1.60%	1.60%	(3.20%)
Value after amendment	$1,901.5	$1,485.0	28.37%	$53.3	9.60%	9.60%	9.17%

- There is no change in the going concern liability or solvency liability.
- There is no change to the total current service cost for non-indexed benefits.
- Plan member and City of Winnipeg ("City") current service contributions are increased from 8% of earnings to 8.8% of earnings effective Feb. 11, 2024 and 9.6% of earnings effective Feb 9, 2025.

More detailed information about financial impact and methodology is provided in the appendices to this letter.

In my opinion, for the purposes of this report,

(a) the membership data on which the valuation is based are sufficient and reliable,
(b) the assumptions are appropriate, and
(c) the methods employed in our calculations are appropriate.

This report has been prepared and my opinion given in accordance with accepted actuarial practice in Canada.

Please note that once the amendment to the pension plan is filed with the regulators, the Regulations require that we either:

- prepare a new actuarial valuation of the Plan to reflect the changes made to the Plan, where the valuation date must be December 31 of the year preceding the year in which the amendment is made, i.e. December 31, 2022 if the amendment is made in 2023, or

- prepare an interim cost certificate showing the effect of the amendment.

Please reach out if you have any questions about the results.

Sincerely,

ECKLER LTD.



Andrew Kulyk, FSA, FCIA

Appendix I - Scope

We have included the following in our report:

- A brief explanation of each Plan change is provided to document our understanding of the Plan changes reflected in the Amending By-law.
- For each of the Plan changes bearing a financial impact noted above, we provide the estimated impact on going-concern liabilities, current service cost, and solvency liabilities of the Plan.
- We have added comments in Appendix III in addition to the estimated financial impacts to highlight some of the additional consequences of the various changes that might not be obvious. This also provides additional documentation of our understanding of the provisions.

Out of Scope and Limitations of the Report

The Plan changes could also have an impact on the City's financial statements. However, the accounting impact is out of the scope of this report.

We did not perform a detailed legal review of the Amending By-law for internal consistency, for example to ensure all amended sections were properly cross referenced.

Appendix II - Methodology and Actuarial Assumptions

Except for the Matching Contributions, which occur in two stages, the Plan changes outlined in the Amending By-law all take effect on January 1, 2024. The Matching Contributions phase in over two years, with the first change taking effect on February 11, 2024 and the second change taking effect on February 9, 2025. For the purpose of evaluating the financial impact, we have performed calculations as at the date of the last completed actuarial valuation of the plan, December 31, 2022, and treated the plan changes as though they occur on January 1, 2023.

We have used membership data in the Plan as at December 31, 2022.

We have used the actuarial assumptions that applied for the valuation of the Plan performed as at December 31, 2022. Specifically, we have assumed that the current termination and retirement patterns would not be affected by the Plan changes.

Barring significant changes in the demographic profile of the Plan and changes to actuarial assumptions during 2023, measuring the financial impact of the Amending By-law as at December 31, 2022 provides a reasonable estimate of the financial impact as at January 1, 2024. To the best of our knowledge there have been no material changes to the data or assumptions since December 31, 2022 that would affect the results of our calculations.

The financial impact of each change was evaluated independently, meaning that the financial impact indicates the effect of the various Plan changes on its own (as opposed to each change being evaluated cumulatively). Had more substantive changes been made to Plan benefits, we may have instead measured the cumulative financial impact of all of the changes.

Actuarial Assumptions

Going-concern

Going-concern assumptions are in accordance with our *Actuarial Report on the Winnipeg Police Pension Plan Actuarial Valuation as at December 31, 2022*. The key economic assumptions are summarized below.

Valuation interest rate:	4.75% per year, net of investment-related expenses that are paid from the assets of the Plan.
Administration expenses	0.09% of the value of assets
Inflation:	3.5% in 2024, 2.0% per year thereafter
General increases in pensionable earnings:	3.25% per year[1]
Overtime pay:	Overtime pay was assumed to be equal to the same percentage of base pay that the member's

[1] Scheduled rate increases according to the collective bargaining agreement are reflected in our valuation. For all years not specified we have assumed an increase equal to 3.25%.

	overtime pay averaged during the three years preceding the valuation date.
Cost-of-Living Adjustments (“COLA”)	Liabilities and current service cost are valued assuming cost-of-living adjustments are equal to 58.6% of the change in CPI. This is the rate of increase applicable for 2023.

Solvency

Interest rates for December 31, 2022:	• 4.91% per year for annuity purchase • 4.10% per year for 10 years and 4.50% per year thereafter for lump sum transfer.

Appendix III - Financial Analysis and Commentary

1. Matching Contributions

Description of change

The Plan currently requires that members contribute 8% of earnings and the City is required to contribute:

a) matching 8% of earnings, plus

b) the balance of the current service cost for non-indexed benefits, plus

c) 2% of earnings for costing of living increases, plus

d) going concern or solvency special payments, if any.

When the funded status of the Plan is such that the Contribution Stabilization Reserve ("CSR") is permitted by legislation to be used to reduce City contributions, the funds in the CSR are used to reduce or eliminate the contributions under (b) and (c) above, so that the City makes a matching 8% contribution.

The Amending By-law changes the matching contribution under paragraph (a) to be 8.8% effective February 11, 2024 and 9.6% effective February 9, 2025.

Financial impact

Increasing member contribution rates has no material impact on the present value of benefits. Therefore, the actuarial liability on both going concern and solvency valuation bases, and total current service cost, are not impacted by the change. Increasing the matching contribution rate reduces the amount of service cost that can be funded from the CSR.

Each step rate increase in the member contributions represents an increase of 0.8% of earnings, or $1.5M, based on the 2023 estimated earnings. Cumulatively, the two-step rate increase equates to an increase in member and City contributions of 1.60% of pay, or approximately $3.0M each, per year. However, considering the function of the CSR, the financial impact of the change depends on the circumstances facing the Plan:

1. When the CSR is available to be used to reduce City contributions for current service cost, such as is the case following the December 31, 2022 actuarial valuation, the change to matching contributions of 9.6% of pay has the effect of increasing the member contributions and City contributions, each by approximately $3.00M annually; i.e. a total net increase of $6.00M.

The following table illustrates the sources of financing the current service cost for 2023 assuming the increase of 1.6% of pay took effect January 1, 2023:

	Percent of Contributory Earnings	Estimated Dollar Amount for 2023 ($'000s)	Percent of Contributory Earnings	Estimated Dollar Amount for 2023 ($'000s)	
	Before Amendment		After Amendment		Difference
Projected contributory earnings		$187,710		$187,710	-
Total current service cost	33.04%	$62,019	33.04%	$62,019	-
Sources of Financing					
Employee contributions	8.00%	$15,017	9.60%	$18,020	$3,003
City contributions	8.00%	$15,017	9.60%	$18,020	$3,003
Balance from Contribution Stabilization Reserve	14.37%	$26,973	11.17%	$20,967	($6,006)
Sub-total	**30.37%**	**$57,007**	**30.37%**	**$57,007**	**-**
Balance from available reserve, future surplus or COLA reduction	2.67%	$5,012	2.67%	$5,012	-
Total	**33.04%**	**$62,019**	**33.04%**	**$62,019**	**-**

2. When the CSR is not available to be used to reduce City contributions for current service cost, such as was the case preceding the December 31, 2022 actuarial valuation, the change to matching contributions of 9.6% of pay has the effect of increasing member contributions by $3.00M and decreasing City contributions by $3.00M; i.e. a total net change of nil.

   The following table illustrates the sources of financing the current service cost for 2023 assuming the increase of 1.6% of pay took effect January 1, 2023, as if the CSR had not been available to reduce City contributions:

	Percent of Contributory Earnings	Estimated Dollar Amount for 2023 ($'000s)	Percent of Contributory Earnings	Estimated Dollar Amount for 2023 ($'000s)	
	Before Amendment		After Amendment		Difference
Projected contributory earnings		$187,710		$187,710	-
Total current service cost	33.04%	$62,019	33.04%	$62,019	-
Sources of Financing					
Employee contributions	8.00%	$15,017	9.60%	$18,020	$3,003
City contributions	22.37%	$41,990	20.77%	$38,987	($3,003)
Balance from Contribution Stabilization Reserve	n/a	n/a	n/a	n/a	-
Sub-total	**30.37%**	**$57,007**	**30.37%**	**$57,007**	**-**
Balance from available reserve, future surplus or COLA reduction	2.67%	$5,012	2.67%	$5,012	-
Total	**33.04%**	**$62,019**	**33.04%**	**$62,019**	**-**

Additional comments

1. Canada Revenue Agency ("CRA") does not allow member contributions greater than 9% of pay without an approved waiver, which requires us to demonstrate that members are not expected to contribute more than 50% of the cost of benefits (Income Tax Act Section 8503 waiver). This is considered by amended subsection 4(7) of the Amending By-law. Our initial calculation estimate of this ratio is 34%, i.e. it should satisfy the test required by CRA. These waivers are typically granted by CRA in four-year intervals.

2. The Plan has a minimum COLA provision whereby the level of funding for COLAs cannot reduce below 25% of the accumulated member required contributions with interest. This roughly equates to a minimum COLA of 9% of changes in CPI, measured at December 31, 2022. Increasing the member contributions will increase future levels of accumulated member required contributions with interest and will therefore also increase the minimum level of COLA. Since the member contributions are increasing by roughly 20% (8.0% increasing to 9.6%), it is reasonable to infer that the future minimum level of COLA may also trend upwards by 20%, towards roughly 11% of changes in CPI, all else being equal.

3. The change has no material impact on the accrued obligation of the Plan, and therefore has no immediate impact on the level of post retirement COLAs. However, increasing the minimum level of Member and City contributions should have the effect of slowing the rate at which the funds in the CSR are used. In the long run this could have the effect of buoying the level of COLAs.

2. Early Retirement Reduction

Description of change

Currently the Plan provides for a reduction in pension on early retirement, equal to 3.6% per year that the retirement date precedes the unreduced date (age 55 or 25 years of credited service), where the date is determined as though employment continued (i.e. with grow-in on service). The reduction is equal to a deduction of 3.6% per year multiplied by a 2% best average earnings benefit, i.e. it is not simply a 3.6% reduction to the lifetime pension. In addition, By-law 126/2011 provides that this rate is periodically reviewed, and adjusted to be cost-neutral, on the advice of the actuary.

The Amending By-law is changing the rate of the reduction to reduce the lifetime pension by 4.0% per year for service earned after 2023. The periodic review of the reduction factor, by the actuary, continues to apply.

Financial impact

First, this change has no impact on the going concern or solvency liabilities of the Plan because the change is made prospectively to future service only.

Second, because clause 7(7)(b) requires the early retirement reduction rate to be cost-neutral to the Plan, the rate reflected in By-law 126/2011 in and of itself is not used. Therefore, the change from 3.6% to 4.0% will be rendered moot upon review of the early retirement reductions.

For completeness of our report, if the early retirement reduction were applied according to the Amending By-law, that being to increase it from 3.6% per year to 4.0% per for service after 2023, the impact on the total current service cost is a decrease of approximately 0.06% of pay, or $100,000 per year.

Additional comments

Based on our last review of the early retirement reduction, our analysis indicated the rate should be decreased to a rate lower than 3.6% per year. An updated review of the early retirement reduction will be performed in the near future, and our recommendation will be provided to the Winnipeg Police Pension Board.