

ECKLER

Draft Trust Agreement Effective Dec. 31, 2024

Winnipeg Civic Employees' Benefit Program

March 18, 2025

Agenda

1. Recap of Committee on Program Sustainability Recommendations
2. Review of Draft Trust Agreement
    i. Overview of changes
    ii. Benefit policy chart
    iii. Special issues and considerations

Abbreviations for Today's Presentation

- Plan Members' Account = "PMA"
- City Account = "CA"
- Future Contribution Reserve = "FCR"



Recap of Sustainability Recommendations

Recap of Sustainability Recommendations

- Comprehensive review of Program was performed over the course of 20+ meetings held from October 2018 through November 2022, including review of:
  - Program guiding principles
  - Risk analysis, including financial projections
  - Program structure and recommendations to improve sustainability
  - Program text including:
    - Comparison with other major municipal plans
    - Benefit adequacy analysis
    - Misc. potential changes
- Board unanimously approved Committee recommendations Nov. 29, 2022
- Stakeholder information session Dec. 12, 2023

Recap of Sustainability Recommendations

- **Recommendation 1 – Re-establish a Future Contribution Reserve**
  - Re-establish the FCR to finance the expected shortfall in contributions relative to the cost of benefits
  - Calculate the maximum amount of the reserve based on future COLAs at 80% of inflation and using the Program's Best Estimate assumptions

- **Notes**
  - Program contribution shortfall is approx. 9% of earnings
  - Similarly, a shortfall existed prior to 2011 Program changes and the Program maintained an FCR to fund shortfall. FCR was eliminated in 2011 when benefits were brought back into balance
  - Recommendation says: Funding the FCR takes priority over other uses of surplus
  - FCR would be used to address a future funding deficiency
  - Helps mitigate the long-term risk associated with cost of benefits exceeding contribution rates

Recap of Sustainability Recommendations

- **Recommendation 2 – Increase the contingency margin from 5% to 10% of the Program's actuarial liabilities**

- **Notes**
  - "Actuarial Surplus" is allocated to CA and PMA; amount in excess of contingency margin
  - Recommendation says: 10% contingency margin would be applied after the FCR is fully funded
  - Preserving surplus in the Program improves the likelihood that current benefit levels can be sustained long term

> *"Any distribution of surplus would only occur after the Future Contribution Reserve and contingency reserve are both fully funded"*

Recap of Sustainability Recommendations

- **Recommendation 3 – Specify actuarial surpluses be used to decrease employee and employer contribution rates equally**
  - Actuarial surpluses would continue to be distributed 50%/50% and would be used to decrease employee and employer contribution rates equally
  - Any actuarial surplus would be amortized over the expected future service of the existing active members of the Program

- **Notes**
  - Ensure equal treatment of surpluses distributed to CA and PMA
  - Contribution rate reductions would be spread out, providing stability in any changes
  - Limits the extent to which surplus is spent in the event it proves to be temporary
  - Gives priority to future contribution reductions over future benefit enhancements
  - Prevents accumulation of excessive surpluses

Recap of Sustainability Recommendations

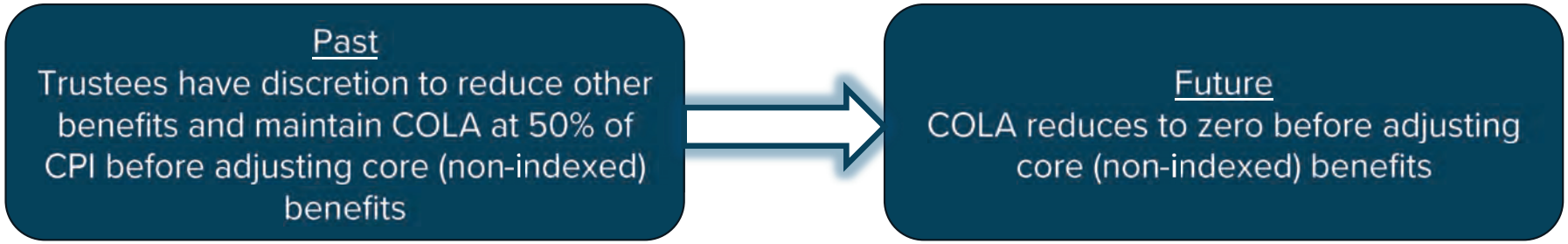
- **Recommendation 4 – Utilize the existing balance of the Plan Members' Account**
  - Allocate the existing balance of the Plan Members' Account to the Future Contribution Reserve

- **Notes**
  - Approximately $30M initial funding for the FCR
  - Provides additional security to the existing Program benefits

Recap of Sustainability Recommendations

- **Recommendation 5 – Eliminate the priority given to pension indexing of 50% of future CPI increases on Program termination**

- **Notes**
  - While Program is ongoing, this change has no material effect on Program or its benefits
  - Impact on solvency liabilities
    - eliminates $1.7B of liabilities for COLA at Dec. 2021; $1.1B Dec 2023
    - would have eliminated the previous solvency deficiency
  - Solvency deficiency currently nil





Review of Changes to Trust Agreement

Review of Changes to Trust Agreement

- Recitals were updated
- Miscellaneous housekeeping (e.g. “his or her” changed to “their”)
- Definitions
  - **Enhancement Cost Reserve** is replaced with **Former Enhancement Cost Reserve**
  - **Former Future Contribution Reserve** added to differentiate between 2003 FCR and 2024 FCR
  - **Funding Excess** added and refers to the excess of assets above 100% of actuarial liabilities, and any funding excess is used to fund the FCR
    - Not to be confused with “Actuarial Surplus” which is the excess of assets above 110% of actuarial liabilities (increased from 105%)

Review of Changes to Trust Agreement
Recommendations #1 & #4

- 7.2 Division into Accounts and the Reserve
  - Subsection (d) is added to subdivide the Main Account into:
    - Future Contribution Reserve, and
    - General Component
  - Main Account is subdivided effective Dec. 31, 2024
  - Subsection (d) specifies that the balance in the PMA shall be transferred to the FCR upon establishment of the FCR

Review of Changes to Trust Agreement
Recommendation #3

- 7.5 Account and Reserve Balances – Annual Calculations
  - Subsection (d) Contribution Subsidy Adjustments is expanded to provide the following steps annually:
    i. ***NEW*** Deduction from PMA and CA equal to account balance at beginning of year divided by the expected average future service period of the existing active Members of the Program determined using Funding Assumptions
    ii. ***NEW*** Notwithstanding paragraph (i), the amount deducted from the City Account may be increased to avoid revocation of the registration of the Pension Plan under the Income Tax Act
    iii. The amount of the reduction to Employer contributions is deducted from the CA
    iv. The amount of the reduction to Member contributions is deducted from the PMA
    v. Amounts deducted from CA and PMA are added to the General Component of the Main Account

Review of Changes to Trust Agreement
Recommendation #1

- 7.6 Identification and Disposition of Actuarial Surpluses
  - New provision for Funding Excess to be calculated as the excess of assets in the General Component of the Main Account over 100% of actuarial liabilities of the Program
  - ***NEW*** (c): if PV two times Member Required Contributions + the balance in the FCR is greater than PV of future service cost with COLA at 80% of CPI (using Best Estimate Assumptions), the excess is deducted from the FCR and added to the Funding Excess
    - In other words - if the FCR is above its target level, we reduce the FCR to its target level
  - ***NEW*** (d): amount equal to the least of CA, PMA and ½ of the amount needed to increase the FCR to its target level is deducted from each of the CA and PMA and added to the FCR
    - In other words - if the FCR is below its target level, it is topped up to its target level using equal amounts from the PMA and CA

Review of Changes to Trust Agreement
Recommendations #1 & #2

- 7.6 Identification and Disposition of Actuarial Surpluses (**Continued**)
  - ***NEW*** (e): if PV of future service cost with COLA at 80% of CPI (using Best Estimate Assumptions) is greater than the PV two times Member Required Contributions plus the balance in the FCR, the shortfall in the FCR is deducted from the Funding Excess and added to the FCR
    - In other words - if the FCR is below its target level after first taking funds from PMA and CA, top it up using the Funding Excess
  - (f): Actuarial Surplus defined to be the excess above 110% of actuarial liabilities
    - Previously was the excess above 105% of actuarial liabilities

Review of Changes to Trust Agreement
Recommendation #1

- 8.2 Action in Response to a Funding Deficiency
  - (a) Equal transfers from CA and PMA
  - (b) Transfer from PMA
  - ***NEW*** (c) Use funds in FCR
  - (d) Use Best Estimate Assumptions
  - (e) Reduce indexing to 75% of CPI
  - (f) Increase contributions to 10%
  - (g) Reduce indexing to 50% of CPI
  - (h) Increase contributions above 10%
  - (i) Reduce Program benefits further
- "Member-paid" benefit reductions in (e), (g), and (i) are first added to PMA, then steps (a) and (b) are repeated before continuing down the list

Review of Changes to Trust Agreement
Recommendations #1 & #2

- 8.4 Funding Excess or Actuarial Surplus Following a Funding Deficiency
  - If Program is <110% funded – No action
  - If Program is >110% funded:
    - (a) Restore the PMA, with interest
    - (b) Decrease contributions to 10%
    - ***NEW*** (c) Funding Excess used to fund the FCR
    - (d) Increase indexing to 80% of CPI and equal transfer to the CA
    - (e) Remaining Actuarial Surplus is distributed equally to CA and PMA

- Notes
  - Upon reaching step (d), the PMA would have been fully restored, with the value of any previous COLA reduction repaid to the PMA with interest
  - COLA could be less than 80% if the Board has not acted to restore COLA, or if PMA is insufficient to fully restore COLA to 80% of CPI
  - Previously this subsection provided for increases only back to 75% of CPI

Review of Changes to Trust Agreement
Recommendation #3

- Section 14.2 Amendments to Program Text
  - (a) Provides that no amendment to benefits can be made unless:
    i. Board receives an actuarial report
    ii. The past service cost does not exceed value in the PMA
    iii. The amended current service cost is not more than Program Contributions
  - Change to (a)(iii) - we replaced “Program Contributions” with “twice the rate of Member Required Pension Contributions”
    - “Program Contributions” are actual contributions net of any contribution subsidies from the PMA and CA
    - “Member Required Pension Contributions” are the rates prescribed in the Plan Text
    - Reductions to Program Contributions are now prescribed in 7.5(d) of the Trust Agreement
    - This change preserves the requirement that an amendment cannot increase current service cost to be more than the contribution rates prescribed in the Plan Text

Review of Changes to Trust Agreement
Recommendation #3

- Section 14.2 Amendments to Program Text (continued)
  - ***NEW*** 14.2 (e) Notwithstanding subsection (a), no amendment shall increase benefits above the levels for past and future service at Dec. 31, 2024 unless the excess of the PMA over the level of PMA required to reduce Member contributions to zero is at least equal to the actuarial value of the past service cost
  - In other words:
    - Contribution reductions are prioritized over benefit enhancements. Member Contributions must therefore be reduced to zero using the amortization rule before enhancing benefits, and then only the excess above that level could be used
    - The restriction on current service cost per 14.2(a)(iii) would continue to apply to any such enhancement

Review of Changes to Trust Agreement
Recommendation #5

- 15.5 Shortfall on Program Termination
  - Post retirement COLA on Program termination is reduced from a minimum level of 50% to 0%

Benefits Policy Chart

- See attached

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Winnipeg Civic Employees' Benefits Program

Funding and Benefits Policy - 2024 Draft Trust Agreement

Going Concern funded ratio	Funding Deficiency		Funding Excess[1] (No Actuarial Surplus)	Actuarial Surplus / Provisional Actuarial Surplus[2]
110%		Not Following a Funding Deficiency		3. Allocate Actuarial Surplus 50% to CA and 50% to PMA
			2. Use Funding Excess to build 10% contingency reserve	
			1. Allocate Funding Excess to Future Contribution Reserve	
		Following a Funding Deficiency		6. Allocate balance of Actuarial Surplus 50% to CA and 50% to PMA
				5. Allocate Provisional Actuarial Surplus 50% to increase pension indexing to 80% of CPI and 50% to CA
				4. Transfer Provisional Actuarial Surplus to Future Contribution Reserve
				3. Decrease employee and employer contributions to 10% of pay
				2. Use Provisional Actuarial Surplus to repay any unmatched transfers from PMA
			1. Use Provisional Funding Excess to build 10% contingency reserve	
100%	1. Equal transfers from CA and PMA			
	2. Transfer from PMA			
	3. Reduction to Future Contribution Reserve			
	4. Use "Best Estimate" assumptions			
	5. Reduce COLA to 75% of CPI			
	6. Increase employee and employer contributions to 10% of pay			
	7. Reduce COLA to 50% of CPI			
	8. Increase EE and ER contributions above 10% of pay, if agreed by City and Signatory Unions			
	9. Further reduction to benefits			

[1] Funding Excess is the amount by which Program assets exceed 100% of actuarial liabilities. A Funding Excess is deemed to be a Provisional Funding Excess following a funding deficiency until any previous deficiency measures have been fully reversed.

[2] Actuarial Surplus is the amount by which Program assets exceed 110% of actuarial liabilities. An Actuarial Surplus is deemed to be a Provisional Actuarial Surplus following a funding deficiency until any previous deficiency measures have been fully reversed.



Special Issues and Considerations

Surplus Used to Reduce Contributions Equally

- **Section 7.5:** Recommendation #3 states, in part, "Specify that actuarial surpluses continue to be distributed 50%/50%, ***but be used to decrease employee and employer contributions equally***"
- Starting 2025 PMA and CA will be equal ($0) after Recommendation #4 to use PMA to fund FCR
- Surpluses are allocated 50/50 to PMA and CA, and both accounts are amortized over the average expected future service of existing active members
- Differences between PMA and CA would happen if:
  - A deficit arises, benefit reductions are applied (e.g. reduce COLA to 50% of CPI), and a surplus subsequently arises – Trust Agreement prescribes restoration of benefits through the PMA
  - Benefits are enhanced using proceeds in the PMA – contribution reductions are prioritized over benefit enhancements, but the ability to enhance benefits is not fully eliminated
- What does "***used to decrease employee and employer contributions equally***" mean if PMA and CA are not equal?

Key Takeaway: Each account balance will be divided by the expected average service. Equal treatment, even if not equal dollar amounts

New Provisions Related to FCR

- Section 7.6(c) and 7.6(d) address two situations related to FCR that were not included in 2003 Agreement
- 7.6(c) – If FCR is above its target level, we reduce the FCR to its target level
- 7.6(d) – If the FCR is below its target level, it is topped up to its target level using equal amounts of surplus previously allocated to PMA and CA, if any

Notes and Comments

- 7.6(d) reinforces the Committee's objective of strengthening the Program's reserves and prioritizes FCR over the surplus

Key Takeaway: Funding of the FCR will take priority over maintaining the CA and PMA, improving financial stability

Simplified Financing of the Contribution Shortfall

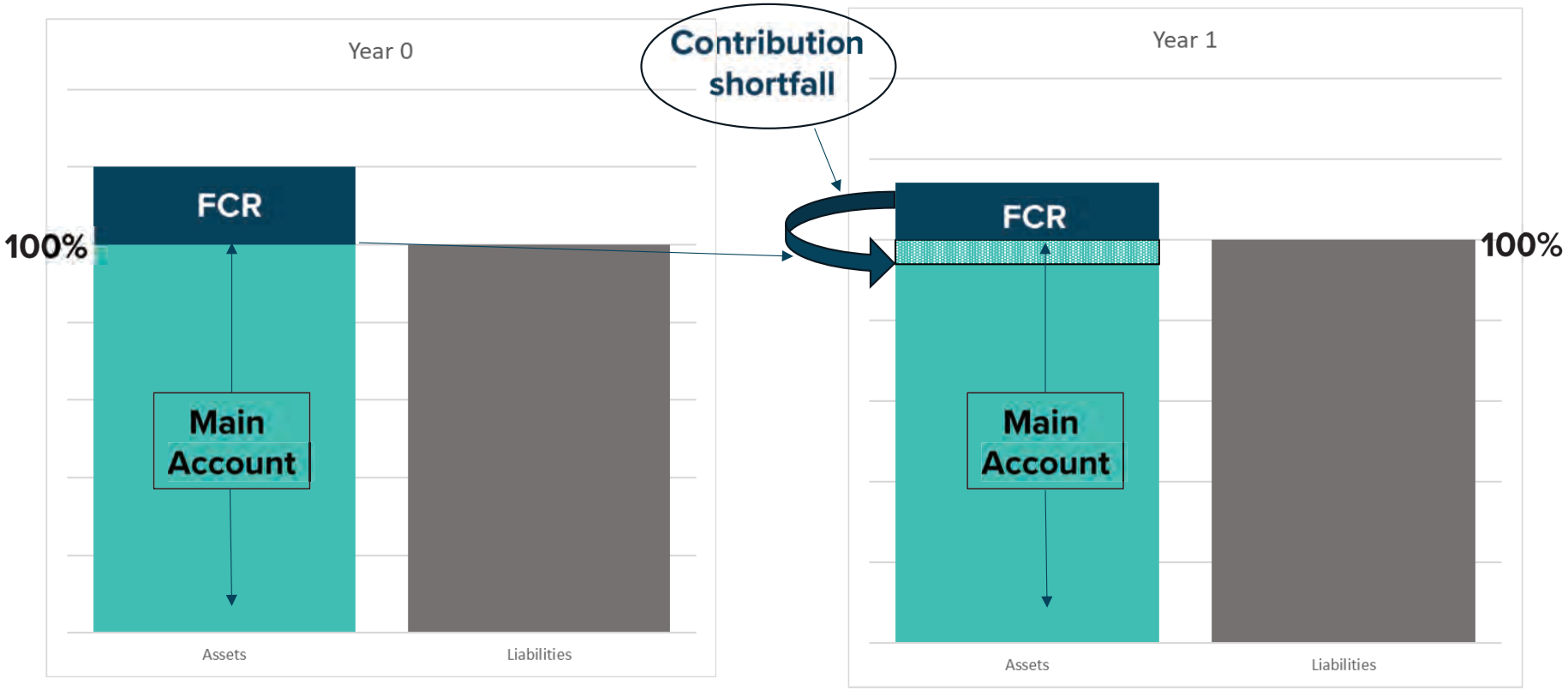
- The 2003 Trust Agreement, which included a Future Contribution Reserve, provided for annual financing of the contribution shortfall
- For the 2024 Trust Agreement, we have simplified the implementation of the FCR, so that annual financing occurs implicitly in the funded status at the end of each year

Notes and Comments

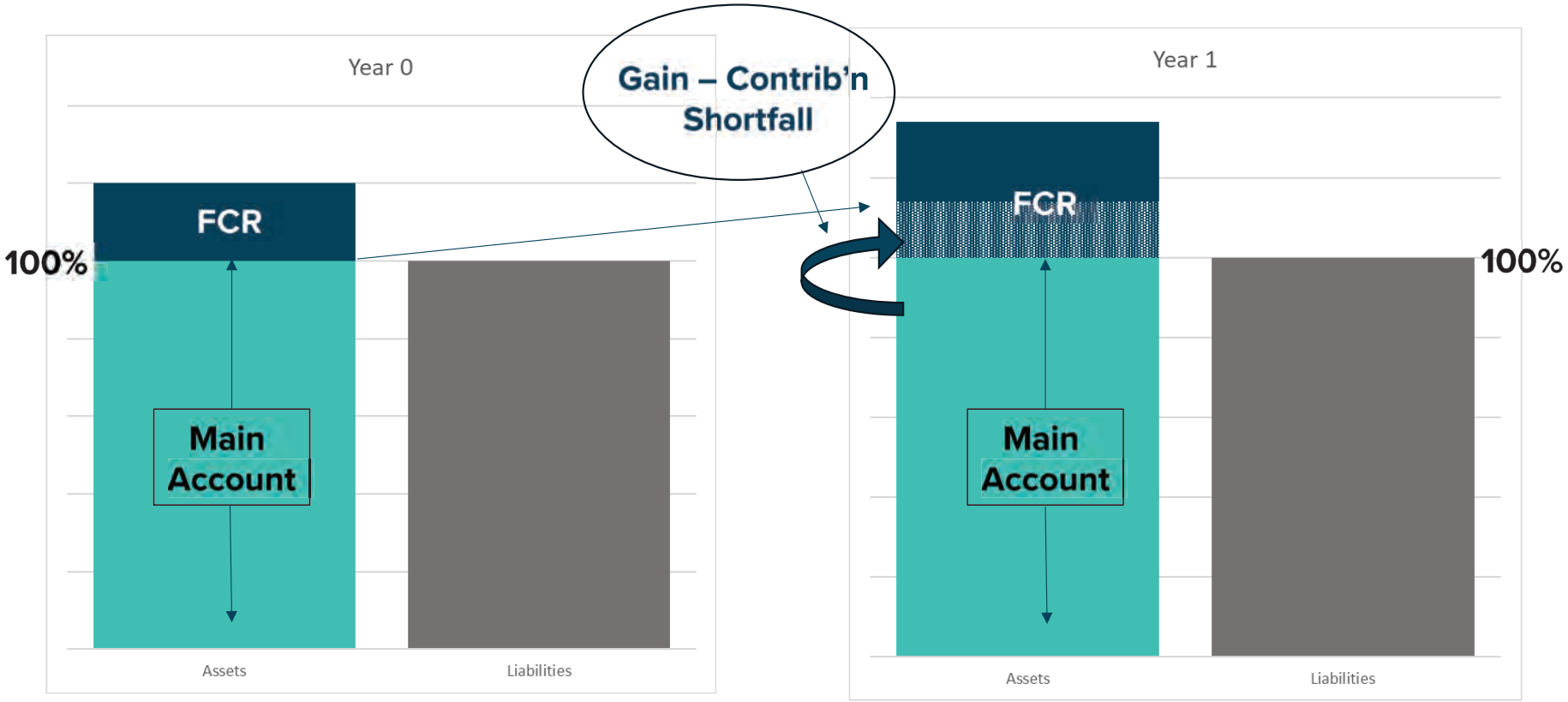
- In most cases, no impact on financials because of rebalancing between FCR and General Component of the Main Account
- Simplifies the accounting – reduced number of transactions between accounts
- A difference in funded position occurs if PMA and CA are non-zero and a deficit arises at the end of the year, where the chosen approach prioritizes the FCR over the PMA and CA, consistent with the Recommendations of the Committee

Key Takeaways: Financing of the contribution shortfall has been simplified, FCR is prioritized over the CA and PMA improving financial stability

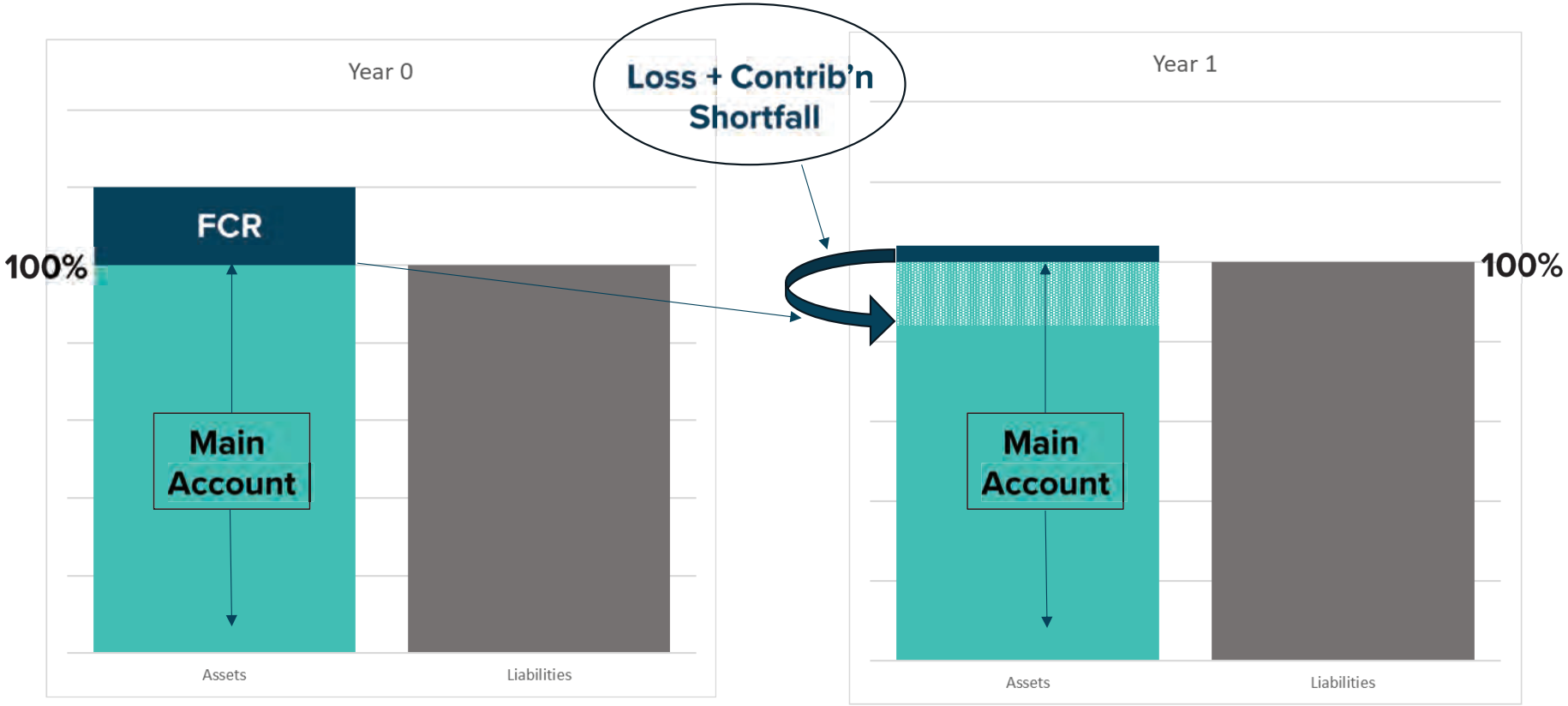
FCR Example 1: No Investment Gain or Loss



FCR Example 2: Investment Gain



FCR Example 3: Investment Loss



Order of Actions in Case of a Funding Deficiency

- The order of priority in which the FCR is utilized in case of a funding deficiency has been revised.
- 2003 Agreement – the FCR used after COLA reduced to 50% of CPI
- 2024 Agreement – the FCR used earlier, before reducing margins in the actuarial assumptions

Notes and Comments

- This better aligns the FCR with its function as stored surplus
- Funding the future contribution shortfalls should not come at the expense of reducing benefits
- The target level of the FCR is based on funding for 80% COLA
- Committee Report: surplus is ***first*** used to top up the FCR, but a transfer from the FCR would be ***one of*** the measures available to address a funding deficiency
- Order of priority for surplus would typically be applied in the reverse order as for a deficit
  - After using the PMA and CA, the FCR is the next measure to resolve a deficit

Key Takeaways: More appropriate order of actions for resolving a deficit with FCR, and current benefits prioritized over future contribution shortfalls

Order of Actions in Case of a Funding Deficiency (*cont'd*)

2003	2024
Transfers from the City Account and Plan Members' Account	Transfers from the City Account and Plan Members' Account
Transfers from the Plan Members' Account	Transfers from the Plan Members' Account
Use of Best Estimate Assumptions	**ELIMINATE THE FCR**
Reduce indexing to 75% of CPI	Use of Best Estimate Assumptions
Increase contributions to 8%	Reduce indexing to 75% of CPI
Reduction of indexing to 50% of CPI	Increase contributions to 10%
ELIMINATE THE FCR	Reduction of indexing to 50% of CPI
Increase contributions above 8%	Increase contributions above 10%
Reduction in Program benefits	Reduction in Program benefits

Contribution Reduction Priority

- **Section 14.2(e) – Contribution reductions are prioritized over benefit enhancements**
- Trust Agreement: PMA may be used for contribution reductions or benefit enhancements
- Recommendation #3 specifies that:
  - Actuarial surplus would be amortized over the expected future service of active members
  - Contribution reductions are given priority over future benefit enhancements
- Draft Agreement: benefit enhancements are not eliminated, but member contributions would be reduced to zero by way of amortization before enhancements are permitted
  - Only the excess over that measure of the PMA can be used for enhancements
- Ability to eventually enhance benefits helps prevent accumulation of excessive surplus
- Exception: In case of an enhancement to reverse a prior benefit reduction, this restriction does not apply

Key Takeaway: Benefit improvements allowed only when member contributions reduced to zero, unless it's a restoration of a prior benefit reduction

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